CASE 94-E-0136
EXHIBIT 32

SITHE ENERGIES, INC.

ANNUAL REPORT

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SITHE ENERGIES OVERVIEW

Sithe Energies, Inc. is engaged in the development, construction, ownership and operation of electric generating facilities. The Company is one of the largest independent (i.e., non-utility) power producers in the United States, and is well positioned in the rapidly growing non-utility sector of the power production industry. The Company generates electricity primarily from natural gas-fired cogeneration plants and, to a lesser extent, from hydroelectric plants. Cogeneration is the production of two or more useful forms of energy, such as electricity and steam, from a single primary fuel source.

The Company sells electricity from its operating plants primarily to major electric utilities and sells thermal energy to industrial, governmental and other users, all under long-term contracts. As of December 31, 1993, the Company owned or leased 20 operating power plants with an installed capacity of approximately 523 megawatts ("MW") and had three plants under construction with a design capacity of approximately 1,229 MW: the 79 MW AG-Energy project and the 1,000 MW Independence project, both in upstate New York, and the 150 MW Cardinal project in Ontario, Canada. The Company also has five projects in active development with an aggregate projected capacity of approximately 364 MW, including a 150 MW project in Australia. In addition, Sithe has undertaken development efforts in selected countries in Asia, including China and Vietnam. The Company's strategy is to own all or a substantial majority of each project, to finance its projects using nonrecourse debt and to operate each of its projects.

1993 COMPANY HIGHLIGHTS

- January - Completed a $717.2 million non-recourse debt financing for Sithe's Independence project, the largest independent power project ever developed in the U.S. by a non-utility affiliated independent power producer.
- April - Commenced commercial operation of the 79 MW Alcoa plant, Sithe's largest operating plant to date.
- June - Completed Sithe's $140.4 million initial public offering. Sithe shares began trading on the New York Stock Exchange. Net proceeds reduced debt.
- August - Established a $140 million corporate credit facility.
- November - Announced Sithe's first overseas international project, a 150 MW gas-fired cogeneration facility in Australia. Sithe also opened an office in Sydney to pursue additional Australian development projects.
- November - Announced that Sithe in partnership with paper industry companies is developing a $120 million containerboard recycling facility which would purchase steam and energy from the Independence power plant.

Dear Fellow Stockholders:

I am pleased to report that 1993 was a year of significant accomplishments for our Company. We went public with an initial offering of shares in June. We achieved record financial results and superior operating performance at our existing plants. We completed a milestone $717.2 million financing at our 1,000 MW Independence Station. The Independence financing was the first time that investment grade public bonds were used to finance such a project. Our new 79 MW Alcoa plant in Massena, New York began commercial operations. The 79 MW AG-Energy plant in Ogdensburg, New York was virtually complete by year end and scheduled for operation in early 1994. Most importantly, we announced in February 1994 that construction of Independence is two months ahead of schedule.

Also, during the year, we committed new resources to aggressive overseas development, opening up exciting opportunities in China, Vietnam and Australia. In 1993, we opened an office in Australia and announced plans there for a 150 MW plant. It will be our second international plant; our first is the 150 MW Cardinal facility in Ontario, Canada. In 1994, we will open offices in Beijing and Guangzhou, China.

Financial Results

Our overall financial performance in 1993 was in line with expectations and we have established a sound foundation for revenue and earnings growth. Revenues for 1993 were $263.1 million, up 13% from $233.4 million in the previous year. Operating income was $57.3 million, up 77% from $32.3 million in 1992. Including charges in 1993 of $13.7 million for non-capitalized net interest expense for Independence and $2.1 million relating to the final disposition of a discontinued operation, the Company reported a net loss of $1.1 million, or $.02 per share, for 1993.

Excluding Independence non-capitalized net interest expense in 1993, the discontinued operation charges and a 1992 tax accounting charge that resulted in a $19.8 million non-recurring credit, net income in 1993 was $14.7 million, or $.29 per share, compared to net income of $6.9 million, or $.16 per share, in 1992. Net non-capitalized interest expense related to Independence will continue to decrease as funds raised for the project are actually spent on completing construction and testing.

Review of Operations

One of our Company's greatest strengths is its sizable base of owned and operated power plants in the U.S. We have been fortunate in attracting to our team some of the most experienced people in the industry to manage the plants. In 1993, this experience was clearly evident as our cogeneration plants were among the best performing in the country—achieving on average a 95% utilization rate as compared to an industry standard of 90%.

Sithe's superior performance was achieved while maintaining the highest safety and environmental standards. We have an excellent record in both areas and keeping that record will always be one of our most fundamental tenets. It is sound operating policy and it makes good economic sense.

Today, we own or lease 21 facilities with an installed capacity of 602 MW— including our new AG-Energy project. The strong revenue and operating income growth in 1993 reflects exceptional performance from our cogeneration plants and the addition of our 55 MW plant in Batavia, NY in late 1992 and the Alcoa plant which began operating in April 1993. Although below average rainfall in northwestern Pennsylvania during the summer adversely affected our hydro operations, water flows increased in the fourth quarter and earnings from these operations improved.

Construction of Independence—the largest non-utility cogeneration plant in the U.S.—progressed so well during the year that, despite the worst winter weather in many years, we are substantially ahead of our original schedule. All of the major equipment has been installed and our two main contractors, Ebasco Constructors and General Electric Company, agreed in early 1994 to move up the target start-up date from January 1, 1995, to November 1, 1994. They have made financial commitments to guarantee the early completion date and Sithe will benefit from the extra two months of the plant's operation.

When ground was broken for Independence in 1992, the goal was for the plant to act as a magnet for new businesses and jobs in Oswego County. For this reason, we built the plant on a 300 acre site ideally suited for new industry, and we committed to invest in attracting new companies to the area. I'm pleased to report that we are delivering on this promise.

Alcan Rolled Products, an aluminum manufacturing company whose existing plant near Independence was threatened by the high cost of power in New York, will keep 800 jobs in the state largely because, subject to approval by the New York Public Service Commission, it will be able to purchase low-cost power from the facility. Also, a new containerboard recycling mill—the first installment on the promise of new industry—is being developed nearby with plans that it will buy power from Independence. From its success so far, Independence is rapidly becoming a model for other potential projects in the U.S. and overseas.

When Independence and our Cardinal project commence operations, they will add another 1,150 MW to our installed capacity, nearly tripling Sithe's size. Cardinal, our first international plant, is expected to be operational in the third quarter of 1994.

In the U.S., we continued to develop projects in our portfolio. In San Diego, we will soon begin construction on the 49 MW Bayside project, which should be in commercial operation by late 1995. Development efforts also continued on the Phoenix project, a proposed 44 megawatt plant in Greeley, Colorado, and two hydroelectric projects, Mississippi 26R (80 MW) near St. Louis, Missouri and Uncompahgre (40 MW) in southwestern Colorado. In addition, we continue to pursue other development prospects, including "inside-the-fence" opportunities, the expansion of some of our existing plants and strategic acquisitions, particularly as consolidation within the industry creates opportunities.

International Development

Our international strategy is to identify a limited number of countries where Sithe will have multiple opportunities and where we can be an important long-term participant in the national energy market. So far, we have identified Canada, Australia, China and Vietnam as countries which meet our criteria. Demand for new electrical capacity in China, Vietnam and Australia is growing rapidly and laws permitting foreign private ownership of generating plants are being liberalized. In Canada, although the market is growing more slowly, our Cardinal experience has been encouraging and we anticipate developing a number of new projects over the next several years.

In November, we announced a 150 MW gas-fired cogeneration project near Sydney, Australia. Construction of the plant is scheduled to start in late 1994 and commercial operation is slated for late 1995. In the next few years, we anticipate developing several additional facilities near Australia's major population centers.

Clearly, the most rapidly growing markets for power are in Asia. In 1993, we focused our Asian efforts on China and Vietnam. We are encouraged by the results so far. In China, we have established a broad array of relationships and set up joint ventures with strong local partners. Currently, a number of projects involving existing and greenfield facilities are being pursued.

Vietnam also offers exciting development opportunities, especially now that the United States embargo has been lifted. We are hopeful of tangible results there within the next several years and believe that our early presence and an effective local partner have given us a competitive edge.

Outlook for 1994

We are optimistic about our prospects for 1994. Our plants continue to perform well and we look forward to the start-ups of Independence and Cardinal. Earnings from these projects will enhance our financial base and increase our flexibility to pursue other worthwhile projects.

Overseas, our strategy is firmly in place and we are expanding our international team. We will continue to aggressively pursue promising development opportunities in the markets we have identified.

I'd like to thank my fellow shareholders and Sithe employees for your support in 1993. I will look forward to continuing profitable growth at Sithe and further enhancement of shareholder value over the next year.

Sincerely,

William Kriegel
Chairman, Chief Executive Officer
and President
Sithe Energies, Inc.

THE BUSINESS OF SITHE

Founded in 1984, Sithe Energies develops, owns and operates electric generating facilities in North America and overseas. As one of the largest independent power producers in the United States, Sithe is well positioned in the rapidly growing non-utility sector of the power production industry. The Company generates electricity from natural gas-fired cogeneration plants and, to a lesser extent, from hydroelectric plants. Sithe became a New York Stock Exchange listed company in 1993 with the issuance of 10,800,000 shares.

Independent power producers accounted for over 6% of total electric generating capacity in the United States in 1993 and over 55% of the new capacity added in the last three years. Overall demand for electricity in the United States is forecast to grow through the remainder of the 1990's with an aggregate of more than 80,000 MW of new capacity by the year 2000. Independent power producers are expected to account for over 50% of this new generating capacity. The increasing national and local focus on the environment together with the Clean Air Act Amendments will continue to encourage the development of projects using clean burning fuels such as natural gas.

Sithe sells electricity primarily to major electric utilities and thermal energy to industrial, governmental and other users, all under long-term contracts. As of December 31, 1993, the Company owned or leased 20 operating power plants with an aggregate installed capacity of approximately 523 MW. Another plant, the 79 MW AG-Energy project, was initially completed by year end and scheduled for operation in early 1994. Two additional plants—Independence and Cardinal—are scheduled for completion and commencement of operations in 1994 and will increase Sithe's capacity by approximately 1,150 MW. The Company also has five projects in active development in the U.S. and Australia, with an aggregate capacity of approximately 364 MW. In addition, the Company is pursuing significant development opportunities in China and Vietnam.

The Company's strategy has always been fundamentally entrepreneurial, stressing development opportunities in the growing independent power production marketplace. The Company has often used creative and innovative techniques for project financing which have distinguished it from its competitors. The Company's strategy is to own all or a substantial majority of each project, to finance its projects using nonrecourse debt and to operate its own projects.

Sithe's revenue has increased from $89.9 million in 1989 to $263.1 million in 1993. This dramatic growth has reflected the Company's consistent strategy of expanding its business through the early identification of development opportunities and strategic acquisitions. Sithe also commits time and resources to building relationships in local communities where it develops projects and with regulatory agencies, utilities and steam hosts.

A cornerstone of Sithe's near-term growth is its 1,000 MW Independence gas-fired cogeneration facility in Oswego, New York, which is expected to begin commercial operation on November 1, 1994. This project, which was financed in 1993 by the sale of $717.2 million of nonrecourse investment grade secured notes and bonds in the public market, is the largest independent power project ever developed in the United States by a non-utility affiliated generator.

A substantial majority of the electric energy and capacity of the Independence project will be sold to Consolidated Edison Company of New York, Inc. (740 MW of capacity for 40 years). Additional electric energy sales to Niagara Mohawk Power Corporation (up to 3 million megawatt hours of electricity annually for 20 years) are planned, although Sithe has the right to market this capacity elsewhere. Additional capacity, electric energy and thermal energy will be sold to Alcan Aluminum Corporation and to a containerboard recycling plant that is being developed adjacent to Independence. It is anticipated that the availability of low-cost energy from Independence will attract additional industrial consumers to the area.

In the future, the Company intends to continue its historically successful approach of early identification and development of potential opportunities. Other key developmental considerations include the availability of suitable sites, accessability to fuel, water and transmission systems and relationships with local communities.

The Company will also seek growth through the expansion of existing projects and development of new plants in the U.S. and overseas. Overseas, the Company will develop its presence in countries where it has multiple opportunities and can play an important long-term role in the country's energy market.

SITHE'S POWER PLANTS

The following table presents information as of December 31, 1993 on owned and leased plants in operation or under construction.

Plant	State or Province	Approximate Megawatts	Act./Est. Construction Cost	Act./Est. Commercial Operations	1993 Revenue	Sithe % Profit Interest
			(dollars in millions)			
In Operation:						
Gas-fired plants:						
Alcoa	NY	79	$ 82.0	1993	$ 28.6	70%
Greeley	CO	72	69.7	1988	36.5	71
Sterling	NY	57	61.9	1992	28.6	100
Batavia	NY	55	70.1	1992	29.5	90
Oxnard	CA	47	52.9	1990	18.7	100
Navy Plants:						
Naval Station	CA	46	47.6	1989	28.9	100
North Island	CA	36	45.2	1989	24.6	100
NTC	CA	23	34.4	1989	16.6	100
Kenilworth	NJ	25	35.7	1989	15.9	100
P&N	NY	8	9.4	1988	4.2	75
Hydroelectric plants:						
Allegheny 8 and 9	PA	32	95.0	1990	11.3	100
Allegheny 5 and 6	PA	16	53.5	1988	5.7	100
Other (6 plants)	ID, CA, NC	27	38.7	1985-90	4.0	100
		523	696.1		$253.1	
Under Construction:						
Gas-fired plants:						
Independence	NY	1,000	766.8	1994	-	100
AG-Energy	NY	79	95.8	1994	-	85
Cardinal	Ontario	150	129.3	1994	-	50
		1,229	991.9			
		1,752	$1,688.0			

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and notes thereto included elsewhere herein.

General

Sithe and its subsidiaries are primarily engaged in the development, construction, ownership and operation of non-utility electric generating facilities. The Company's revenue is derived primarily from sales of electricity under long-term agreements with major electric utilities.

As of December 31, 1993, Sithe owned or leased through its subsidiaries 20 operating power plants in the United States with an aggregate installed capacity of 523 MW. The Company expects to more than triple its generating capacity by late 1994 to approximately 1,752 MW through the commencement of commercial operation at three plants presently under construction: the 79 MW AG-Energy project in upstate New York in the second quarter of 1994, the 150 MW Cardinal project in Ontario, Canada, in the third quarter of 1994 and the 1,000 MW Independence project in Oswego, New York, in the fourth quarter of 1994.

The Company's historical growth in revenue from $89.9 million in 1989 to $263.1 million in 1993 represents a 31% compound annual rate of growth which reflects the commencement of commercial operations during such period of seven (approximately 278 MW) of the 20 plants (523 MW) that the Company had in operation at the end of 1993.

In November 1993, the Company completed the sale of its 17 MW wood-fired Feather River plant located in California. The sales price more than covered the plant's net book value and includes potential future payments.

The Company's operating results are subject to seasonal variations in revenue at four of its California plants (152 MW) and at its hydroelectric facilities (75 MW). The California plants earn most of their annual capacity payments during the California utilities' summer peak period which extends from May until October of each year. Hydroelectric revenues are typically lower in the summer months.

The Company's results of operations for 1993 were significantly impacted, and results for 1994 will be affected to a lesser extent, by the recognition of interest expense required with respect to the "negative interest arbitrage" associated with the financing and construction of the Independence project. Such accounting treatment has no impact on the Company's liquidity. In that regard, in January 1993, the Company completed a nonrecourse financing of $717.2 million of investment grade secured notes and bonds to finance the 1,000 MW Independence project. Proceeds from the issuance of such securities, which included an amount sufficient to pay interest on the securities during the construction period, were deposited in various restricted funds that are being administered by an independent trustee pursuant to a trust indenture. The trust indenture restricts investment of fund balances to high-quality, short-term financial instruments. The net interest expense resulting from the excess of the 8.65% weighted average interest rate on the securities over the rate earned on the investment of the unspent funds is required to be charged against earnings. Negative interest arbitrage amounted to $21.5 million in 1993, reducing after-tax results by $13.7 million, or $.27 per share. Although the amount of negative interest arbitrage will vary depending on the rate of construction spending and the movement of short-term interest rates, the Company presently estimates that negative interest arbitrage will reduce net income for 1994 by approximately $4.2 million, or $.08 per share.

A petition requesting permission to curtail (i.e., limit or suspend) purchases of power from independent power producers was filed by Niagara Mohawk Power Corporation ("Niagara Mohawk"), and the New York Public Service Commission instituted a proceeding, which has been postponed indefinitely, to consider the merits of the petition. Six of the Company's projects have power sales agreements with Niagara Mohawk covering approximately 478 MW. A decision permitting Niagara Mohawk to implement curtailment could adversely affect the operating revenue of such projects.

Results of Operations 1993, 1992 and 1991

Revenue, Cost of Sales and Gross Profit

Total revenue increased in 1993 by $29.7 million (13%) from $233.4 million to $263.1 million, in 1992 by $44.4 million (23%) from $189 million to $233.4 million and in 1991 by $20.9 million (12%) from $168.1 million to $189 million.

Cost of sales, which includes fuel, operations and maintenance expenses, lease expense and depreciation and amortization, increased in 1993 by $17.8 million (10%) from $176.2 million to $194 million, in 1992 by $27.6 million (19%) from $148.6 million to $176.2 million and in 1991 by $19.6 million (15%) from $129 million to $148.6 million.

The $29.7 million increase in revenue and the $17.8 million increase in cost of sales in 1993 largely reflect the start up of commercial operations of the approximately 79 MW Alcoa plant contributing revenue of $28.6 million, full-year operation in 1993 versus partial-year operation in 1992 of the approximately 55 MW Batavia plant which added $19.7 million of incremental revenue and the fact that revenues and cost of sales in 1992 included $22.1 million and $14.7 million, respectively, for the 44 MW Stockton coal-fired plant that was sold in September 1992. At Greeley and also at Feather River, which was sold in November 1993, revenue was about the same as last year, but cost of sales declined by $2.2 million and $2.6 million, respectively, with Greeley reflecting benefits of renegotiated gas pricing that took effect in March 1993 and Feather River benefiting from lower maintenance costs and reduced depreciation charges following the 1992 writedown of the plant as discussed below. Overall improved performance at other cogeneration plants in 1993 offset the decline in hydroelectric revenue and gross profit that resulted from the unusually dry summer in northwestern Pennsylvania which negatively impacted production at the four Allegheny River plants (approximately 48 MW).

The $44.4 million increase in revenue and the $27.6 million increase in cost of sales in 1992 are largely attributable to the start up of commercial operations of the approximately 57 MW Sterling and the approximately 55 MW Batavia plants in upstate New York in January and September of 1992, respectively, contributing revenue of $28.2 million and $9.7 million, respectively; increased production contributing increased revenue of $9.4 million at the four Allegheny River plants which in 1991 suffered from unusually severe drought conditions; and increased production contributing increased revenue of $2.2 million at the Greeley, Colorado plant where a turbine upgrade increased the plant's capacity by approximately 4 MW. The sale of the 44 MW Stockton, California coal-fired plant in September 1992 resulted in $4.3 million lower revenue in 1992 compared with the full year operation in 1991.

The $20.9 million increase in revenue and the $19.6 million increase in cost of sales in 1991 reflect the commencement of sales of natural gas, which totaled $7.3 million, full-year operation in 1991 versus partial year operation in 1990 of the approximately 47 MW Oxnard, California plant and the Allegheny 8 and 9 hydroelectric plants (approximately 32 MW) that started up in June and November of 1990, respectively, contributing increased revenue of $3.3 million and $3.2 million, respectively, and improved performance contributing increased revenue of $4.5 million at the Stockton plant.

Fuel costs expressed as a percentage of revenue from electric and steam sales averaged 38% in 1993 compared with 36% in 1992 and 1991 with the increase in 1993 reflecting the effect of lower hydroelectric revenue for which there are no fuel costs and the fact that fuel costs for the Stockton coal-fired plant that was sold in September 1992 averaged only 27% of revenue.

Operating lease expense included in cost of sales amounted to $34.5 million in 1993, $34.8 million in 1992 and $34.6 million in 1991. Operations and maintenance expenses expressed as a percentage of revenue declined to 15% in 1993 compared with 18% in 1992 and 1991 when Stockton operations and maintenance expenses averaged 28% of revenue.

Gross profit expressed as a percentage of revenue increased to 26% in 1993 compared with 25% in 1992 and 21% in 1991.

General, Administrative and Development Expenses

General, administrative and development expenses amounted to $10.6 million in 1993, $5.8 million in 1992 and $5.1 million in 1991 with the increase in 1993 reflecting expanded domestic and international development activities and increased staffing and other costs incidental to operating a public company.

Project Impairments

Provisions for project impairments amounted to $17.7 million in 1992 and $1.2 million in 1991. The 1992 charge consisted principally of $13.8 million representing the excess of net book value over estimated recoverable value for the Feather River plant with the remainder attributable to the write-off of development costs for certain hydroelectric development projects for which management decided to surrender the licenses and cease development and the writedown of certain other assets.

Operating Income

Operating income was impacted by project impairments as follows:

	1993	1992	1991	1990
		(in millions)		
Operating income	$57.3	$32.3	$32.4	$31.6
Project impairments	-	17.7	1.2	-
Operating income before project impairments	$57.3	$50.0	$33.6	$31.6

The increases in operating income before project impairments of $7.3 million (15%) in 1993, $16.4 million, (49%) in 1992 and $2.0 million (6%) in 1991 are primarily attributable to the above discussed factors that impacted revenue, cost of sales and gross profit in such years.

Interest Expense and Other Income

Interest expense on project borrowings increased $42 million in 1993 principally as a result of interest expense of $35.2 million associated with the Independence project financing. Other income for 1993 includes investment income of $13.7 million earned on short-term investments held by a trustee and designated for construction of the Independence project. On an after-tax basis, the Independence negative interest arbitrage reduced overall results for 1993 by $13.7 million, or $.27 per share. Interest expense on project borrowings for 1993 was also affected by the start up of the Batavia plant in September 1992 and the Alcoa plant in April 1993, partially offset by reduced interest expense due to the repayment of project debt from the proceeds of the sale of the Stockton plant in September 1992.

Other income for 1992 of $9.1 million includes $8.1 million representing the recognition of a portion of the proceeds from a successful arbitration settlement in 1991 relating to the Stockton plant that was deferred until 1992 when the plant was sold. The arbitration concerned, among other things, a dispute with the contractor regarding the construction and design of the Stockton plant. The Company sold the plant primarily because its technology, fluidized bed coal, did not fit with the Company's profile and strategy. Other income for 1991 of $6.1 million includes $3.3 million representing the portion of such arbitration settlement that recovered the $3.3 million of arbitration expenses incurred in 1990. Other income for 1991 also includes a $1.4 million foreign currency transaction gain on a payable to an affiliate.

Provision for Income Taxes

The Company's effective tax rate applicable to income from continuing operations was 35% in 1993, 44% in 1992 and 18% in 1991. For 1993, the effective tax rate was the same as the statutory federal income tax rate of 35% as the effects of state income taxes and nondeductible goodwill amortization were offset by credits relating to adjustment of net deferred tax assets for the change in the statutory tax rate enacted by the Omnibus Budget Reconciliation Act of 1993 and certain other adjustments. The tax rate for 1992 was higher than the statutory federal rate of 34% because of state income taxes and nondeductible goodwill amortization. The tax rate for 1991 was lower than the statutory federal income tax rate of 34% primarily because of the effect of investment and energy tax credits.

Minority Interests

Minority interests, representing the interests of certain third parties in the income of certain consolidated subsidiaries and partnerships, amounted to $3.8 million in 1993, $2.5 million in 1992 and $2.2 million in 1991, net of income taxes of $2.1 million, $1.7 million and $1.3 million, respectively.

Income from Continuing Operations

Income from continuing operations, excluding after-tax impacts of Independence negative arbitrage in 1993 and the provision for project impairments and income from an arbitration settlement in 1992, amounted to $14.7 million, or $.29 per share, in 1993 and $12.6 million, or $.29 per share, in 1992. Including such items, income from continuing operations was $1 million, or $.02 per share, in 1993 and $6.9 million, or $.16 per share, in 1992. Results for 1992 included approximately $3.1 million of net income attributable to the Stockton coal-fired plant that was sold in September 1992.

Discontinued Operation

In the first quarter of 1994, a previously announced discontinued operation, in a business unrelated to independent energy production, was sold to an unrelated third party. The Company recorded a $2.1 million after-tax charge to fourth quarter 1993 net income to write off additional advances due to the later-than-expected disposition date. The Company's effective 20% interest in such operation was held through a partnership controlled by two individual shareholders of the Company. In 1992, after-tax charges to net income related to this operation were $5.1 million, including provisions to write off the investment and to cover estimated costs until disposition.

Cumulative Effect of Change In Accounting for Income Taxes

Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting of income taxes. In 1991 and prior years, the Company followed the deferred method. The cumulative effect of the change in accounting on years prior to 1992 was recorded as of January 1, 1992 and increased net income for 1992 by $19.8 million, or $.45 per share. Prior years' financial statements have not been restated for the change in accounting.

The net deferred tax asset of $36.5 million at December 31, 1993 relates principally to temporary differences of $15.2 million relating to taxable gains on sale/leaseback transactions deferred for accounting purposes, investment, energy and alternative minimum tax credit carryforwards of $22.4 million and future tax benefits of $16.2 million for available net operating loss carryforwards, partly offset by net deferred tax liabilities of $17.3 million relating principally to temporary differences between the book and tax bases of fixed assets. Based on the long-term power sales agreements and fuel supply contracts in place for the Company's 20 operating plants and three plants in construction at December 31, 1993, management is confident that the Company will generate a level of future taxable income that will be more than sufficient to realize within applicable carryforward periods the net deferred tax asset at December 31, 1993.

As of December 31, 1993, corporate entities included in the consolidated group had net operating loss carryforwards for federal income tax purposes of approximately $46.4 million scheduled to expire as follows: $1.5 million in 2001, $13.7 million in 2002, $15.4 million in 2003, $3.8 million in 2004 and $12 million in 2006; investment and energy tax credit carryforwards of approximately $11.8 million scheduled to expire as follows: $1.2 million in 2001, $1.9 million in 2002, $7.5 million in 2003 and $1.2 million in 2005; and alternative minimum tax credit carryforwards of approximately $10.6 million with no expiration date.

Annual use of these carryforwards is subject to the ability of certain entities to generate taxable income and the requirements of the alternative minimum tax regulations. In 1993, consolidated federal taxable income before utilization of net operating loss carryforwards was $12.1 million, compared with income from continuing operations before income taxes of $7.3 million.

Liquidity and Capital Resources

Cash flow from operating activities amounted to $38 million in 1993 compared with $34.5 million in 1992 and $11.8 million in 1991 with the increases reflecting commencement of commercial operation of the Alcoa plant in April 1993, the Batavia plant in September 1992 and the Sterling plant in January 1992. There were no operating plant additions in 1991 and cash flow in that year was negatively impacted by an unusually severe drought condition in the Allegheny River region.

Cash and cash equivalents increased to $20.5 million at December 31, 1993 compared with $.1 million at the end of 1992 and 1991 with the $20.4 million increase in 1993 reflecting principally the fact that cash flow from operating activities ($38 million) and proceeds from the 1993 Independence financing that recovered 1992 capital expenditures on the project ($30 million) were largely applied to pay principal on operating project debt ($24.3 million) and to fund non-financed capital expenditures on projects other than Independence ($26 million).

Capital expenditures for project development and construction aggregated $507 million in 1993, including $383 million for construction of the Independence project. At the end of 1993, the Company held $316 million of short-term investments designated for construction of the Independence project. The project was financed by the $717.2 million of nonrecourse notes and bonds that were sold in January 1993. Capital expenditures of $160.6 million in 1992 were funded largely by $127.8 million of nonrecourse project loans and $25.5 million of the proceeds from the sale of Stockton which amounted to $82 million and of which $56.5 million was applied to repay project loans and reduce corporate borrowings. Capital expenditures of $130.7 million in 1991 were funded largely by $106.3 million of nonrecourse project loans and $11.2 million from the proceeds of an arbitration settlement.

Commitments for capital expenditures with respect to the three projects under construction at December 31, 1993 were $991.9 million. The Company has obtained long-term financing for $919.2 million of the costs of such projects. In that regard, the Company has $202 million of nonrecourse construction and term loan commitments for the AG-Energy and Cardinal projects and has posted letters of credit to secure its equity contributions to such projects. In January 1993, the Company completed the financing of the Independence project through the issuance of $717.2 million of nonrecourse investment grade secured notes and bonds. Also, in January 1993 the Company posted a $40 million letter of credit, collateralized by $40 million of short-term investments designated for construction, to secure its remaining capital contribution to the Independence project. The Company also obtained a credit facility under which $35 million of letters of credit may be issued in connection with its obligations pursuant to certain of the Independence project contracts. On the closing date of the financing, the partnership developing the Independence project (the Company holds all the partnership interests in such partnership) also secured the Independence project's debt service reserve fund requirement with a letter of credit in the amount of $50 million and entered into a secured working capital facility for a maximum available amount of $20 million.

In June 1993, the Company issued 10.8 million shares in an initial public offering of its Common Stock. Net proceeds from the offering amounted to $121.7 million, of which $40 million was used to repay an affiliate of CGE for a borrowing in December 1992 used to cash collateralize a letter of credit securing the Company's remaining equity requirement for the Independence project; $55.9 million was used to liquidate a substantial portion of the remaining balance of payables to affiliates of CGE, which included a dividend of $25.5 million declared March 31, 1993 on the special common stock previously held by CGE; and the balance of $25.8 million was applied largely to reduce outstanding bank debt. In connection with the initial public offering, the Company loaned $7.1 million to certain employees to enable them to acquire 544,722 shares of Common Stock. See Note 11 to the Consolidated Financial Statements.

In August 1993, the Company consolidated its corporate lines of credit, including the $35 million letter of credit facility related to the Independence project, into a $140 million senior secured revolving credit facility with a group of banks led by Union Bank and Banque Nationale de Paris. At December 31, 1993, there were no outstanding borrowings under such lines, and outstanding letters of credit issued under such lines of credit amounted to $96.9 million for a $43.1 million balance of credit available as of such date. The facility is available until February 3, 1996 for the issuance of standby letters of credit and up to $30 million of revolving loans. The commitment fee on the unused portion of the facility is 3/8 of 1%. Interest on revolving loans is payable at the Company's election at either LIBOR plus 1 3/4% or the higher of the prime rate or the federal funds rate plus 1/2% for the first eighteen months increasing by 1/2% thereafter. Letter of credit fees range from 1 1/2% to 1 3/4%. The most restrictive covenants of the credit facility limit annual dividends to the lower of $2 million or 25% of excess cash flow (as defined), restrict and cap other corporate borrowings to $50 million of subordinated borrowings from affiliates of CGE and significantly limit repayment of borrowings from affiliates of CGE. The Company has pledged its equity interest in certain projects as collateral.

The financing agreements for each of the Company's operating projects preclude dividends or distributions from the projects to Sithe unless certain financial ratios and covenants are met by the project entities and until project reserve accounts for debt service, major equipment overhauls and other specific project obligations are funded to specified levels. As of December 31, 1993, all project reserve account requirements had been met with cash or the issuance of letters of credit and, except for the 8 MW P&N plant where outstanding bonds amounted to $5 million, all project financial ratios and covenants had been met in all material respects.

The Company believes that it has sufficient liquidity available from cash flow from operations, funds designated for construction, outstanding construction and term loan commitments, and from amounts available under its corporate lines of credit to fund working capital and project reserve requirements, to complete the three projects presently under construction, to fund estimated development costs and equity requirements for the three projects presently expected to commence construction in 1994 and to fund its "greenfield" development and general and administrative costs as they are incurred. The Company expects that its cash flow from operations will increase significantly when the Independence project commences commercial operation.

The Company intends to continue financing a significant portion of the capital costs of the projects it develops with nonrecourse borrowings and management believes, based on its financing experience, that it will be successful in obtaining such borrowings in the future.

Inflation, Interest Rates and Changing Energy and Fuel Prices

The Company attempts, whenever possible, to hedge its projects against the effects of inflation, interest rates and changing energy and fuel prices.

With regard to changes in energy prices, the Company seeks to obtain power sales agreements that provide for scheduled, fixed or increasing-rate pricing for all or a substantial portion of the contract term. In 1993, only 17% of the Company's revenue from electric utilities was based on avoided cost pricing. With regard to the three projects under construction at December 31, 1993, the AG-Energy project has fifteen-year increasing-rate pricing based on estimated long run avoided costs, the Cardinal project has fifteen-year levelized pricing based on estimated long run avoided costs and the Independence project has five-year fixed pricing for a portion of the electric energy to be sold to Con Edison.

The electric energy payments for the Navy plants are presently based 80% on the utility's avoided cost of energy and 20% on forecasted incremental energy rates and, beginning in the second half of 1999, will be based 100% on avoided costs. Since the forecasted energy prices are significantly higher than the utility's current avoided costs and are likely to remain so, the Navy plants could face a significant decline in revenue commencing in the second half of 1999.

With regard to changes in gas prices, the Company seeks to obtain long-term gas supply contracts for the substantial majority of the gas requirements of all of its gas-fired cogeneration plants and projects, except with respect to its four California cogeneration plants that purchase spot gas. The majority of such contracts provide for either scheduled pricing or adjustments based on pre-determined escalation rates or energy rate/gas price multipliers. The Company believes that increases in prices of spot gas consumed at its California cogeneration plants would likely lead to eventual increases in its utility customers' avoided energy costs, thereby increasing the price paid by such customers to the Company for electricity and largely offsetting increases in fuel costs.

The majority of the Company's outstanding term debt is fixed-rate financing and through interest rate swaps the Company has fixed the interest rates on substantially all of its outstanding variable-rate term debt. Since operations and maintenance expenses are subject to general inflation, the Company aggressively pursues opportunities to reduce or contain such expenses. Although hedged to a significant extent, the Company's financial results will likely be affected to some degree by fluctuations in general inflation, interest rates, gas prices and related expenses.

STOCK PRICE INFORMATION

The following table shows the range of the high and low sales prices of the Company's stock on the New York Stock Exchange composite tape. The Company does not, at present, pay dividends on its Common Stock.

1993	High	Low
2nd Quarter (from June 23)	$13.00	$12.00
3rd Quarter	13.75	11.50
4th Quarter	13.625	10.375

Deloitte &
Touche

INDEPENDENT AUDITORS' REPORT

Sithe Energies, Inc.

We have audited the accompanying consolidated balance sheets of Sithe Energies, Inc. and its subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, stockholders' equity, and cash flows for the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sithe Energies, Inc. and its subsidiaries at December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1992.

Deloitte & Touche

San Diego, California
March 7, 1994

SITHE ENERGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Years Ended December 31,		
	1993	1992	1991
Revenue			
Electricity and steam	$256,784	$227,909	$181,728
Natural gas	6,336	5,446	7,293
	263,120	233,355	189,021
Cost of sales			
Fuel	98,477	82,523	65,920
Operation and maintenance	39,875	42,579	35,363
Operating lease expense	34,470	34,751	34,627
Depreciation and amortization	21,148	16,312	12,676
	193,970	176,165	148,586
Gross profit	69,150	57,190	40,435
Other operating expenses:			
General, administrative and development expenses	10,554	5,811	5,126
Provision for project impairments	-	17,720	1,237
Amortization of goodwill	1,345	1,345	1,645
	11,899	24,876	8,008
Operating income	57,251	32,314	32,427
Non-operating income (expenses):			
Interest expense:			
Project borrowings	(61,086)	(19,061)	(14,559)
Corporate borrowings	(959)	(636)	(249)
Payables to affiliates of CGE	(4,532)	(4,991)	(5,109)
Other income, net	16,661	9,111	6,087
Income from continuing operations before income taxes	7,335	16,737	18,597
Provision for income taxes	2,576	7,313	3,311
Minority interests, net	3,784	2,524	2,183
Income from continuing operations	975	6,900	13,103
Discontinued operation:			
Loss from equity investment, net of income taxes of $2,024 in 1992 and $113 in 1991	-	3,237	187
Loss from disposition of investment, net of income taxes of $1,188 in 1993 and $1,149 in 1992	2,112	1,851	-
Income (loss) before cumulative effect of change in accounting for income taxes	(1,137)	1,812	12,916
Cumulative effect on years prior to 1992 of change in method of accounting for income taxes	-	19,829	-
Net income (loss)	$ (1,137)	$ 21,641	$ 12,916
Earnings (loss) per share:			
Income from continuing operations	$ .02	$ .16	$ .30
Income (loss) before cumulative effect of change in accounting for income taxes	$ (.02)	$ .04	$ .29
Cumulative effect on years prior to 1992 of change in method of accounting for income taxes	-	.45	-
Net income (loss)	$ (.02)	$ .49	$ .29
Average shares outstanding	50,036	44,385	44,385

See notes to consolidated financial statements.

SITHE ENERGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 1993	December 31, 1992
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,511	$ 70
Restricted funds	11,261	13,726
Accounts receivable - trade	37,068	29,121
Fuel inventory	630	2,273
Other current assets	5,995	9,085
Total current assets	75,465	54,275
Property, plant and equipment, at cost:		
Land	4,746	4,746
Electric and steam generating facilities	376,655	299,173
Construction in progress	663,196	345,489
Natural gas exploration and development	42,881	36,665
	1,087,478	686,073
Accumulated depreciation and amortization	(62,774)	(58,166)
	1,024,704	627,907
Short-term investments designated for construction (at cost which approximates market value)	316,304	40,000
Other assets:		
Project development costs	15,445	8,826
Investments	16,829	17,392
Receivables from affiliates of CGE	-	3,089
Debt issuance costs and other assets	17,035	4,596
Deferred income taxes	36,524	35,464
Goodwill (net of accumulated amortization of $9,444 and $8,099)	46,895	48,240
	132,728	117,607
Total assets	$1,549,201	$839,789

See notes to consolidated financial statements.

SITHE ENERGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands, except per share data)

	December 31,	
	1993	1992
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 16,582	$ 20,252
Accrued interest	4,457	3,443
Current portion of long-term debt	14,663	23,343
Other current liabilities	13,778	15,470
Total current liabilities	49,480	62,508
Long - term debt:		
Borrowings under lines of credit	-	16,104
Nonrecourse construction payables	25,526	166,848
Nonrecourse project debt	1,119,412	319,167
Payables to affiliates of CGE	45,170	116,558
Capital lease obligations	5,474	6,845
Subordinated debentures	5,091	4,546
	1,200,673	630,068
Other liabilities:		
Construction payables and retentions	61,641	-
Other	22,305	24,225
	83,946	24,225
Deferred gains on sale/leaseback transactions	48,457	51,171
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (par value $.01 per share, 50 shares authorized, none issued)	-	-
Common stock (par value $.01 per share, 100,000 shares authorized, 55,185 and 44,385 shares issued and outstanding)	552	444
Additional paid - in capital	178,708	75,537
Retained earnings (deficit)	(5,301)	(4,164)
Notes receivable from employees	(7,314)	-
	166,645	71,817
Total liabilities and stockholders' equity	$1,549,201	$839,789

See notes to consolidated financial statements.

SITHE ENERGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Notes Receivable from Employees	Total Stockholders' Equity
Balance, January 1, 1991	44,385	$444	$106,466	$(38,721)	$ -	$ 68,189
Net income	-	-	-	12,916	-	12,916
Dividend	-	-	(19,444)	-	-	(19,444)
Balance, December 31, 1991	44,385	444	87,022	(25,805)	-	61,661
Net income	-	-	-	21,641	-	21,641
Dividend	-	-	(11,485)	-	-	(11,485)
Balance, December 31, 1992	44,385	444	75,537	(4,164)	-	71,817
Sale of Common Stock	10,800	108	128,671	-	(7,081)	121,698
Accrued interest	-	-	-	-	(233)	(233)
Net loss	-	-	-	(1,137)	-	(1,137)
Dividend	-	-	(25,500)	-	-	(25,500)
Balance, December 31, 1993	55,185	$552	$178,708	$ (5,301)	$(7,314)	$166,645

See notes to consolidated financial statements.

SITHE ENERGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	1993	1992	1991
Cash flow from operating activities:			
Income (loss) before cumulative effect of accounting change	$ (1,137)	$ 1,812	$12,916
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	22,493	17,657	14,321
Amortization of deferred sale/leaseback gains	(2,586)	(2,422)	(2,128)
Net interest costs funded by short-term investments	21,466	-	-
Other noncash income	-	(8,138)	-
Provision for project impairments	-	17,720	1,237
Changes in operating assets and liabilities:			
Accounts receivable - trade	(7,947)	(4,080)	(9,803)
Other assets	3,789	(5,207)	666
Trade payables	(2,185)	3,461	575
Other liabilities	653	12,283	(4,594)
Other	3,659	1,365	(1,349)
Net cash provided by operating activities	38,205	34,451	11,841
Cash flows from investing activities:			
Capital expenditures:			
Independence project	(382,784)	(29,026)	(3,356)
Other	(124,087)	(131,609)	(127,369)
Investment of funds designated for construction	(276,304)	(40,000)	-
Net interest costs funded by short-term investments	(21,466)	-	-
Restricted funds	2,465	(3,170)	9,976
Arbitration proceeds	-	-	11,199
Advances to affiliates	(5,847)	(6,113)	(5,749)
Repayments of advances to affiliate	3,000	5,300	-
Receivable from an affiliate of CGE	-	(3,089)	-
Proceeds from sale of assets	-	81,970	2,167
Other	606	-	-
Net cash used in investing activities	(804,417)	(125,737)	(113,132)
Cash flows from financing activities:			
Nonrecourse project debt proceeds:			
Independence project	717,241	-	-
Other	97,881	127,843	106,286
Net proceeds from sale of Common Stock	121,698	-	-
Borrowings (payments) under lines of credit	(16,104)	(10,896)	4,141
Principal payments of loans	(23,296)	(12,337)	(9,436)
Principal payments on capital lease obligations	(1,087)	(1,108)	(1,069)
Repayment of Stockton project debt	-	(45,617)	-
Advances from affiliates of CGE	4,506	45,628	6,370
Repayments of advances from affiliates of CGE	(75,894)	(7,933)	(8,813)
Dividend payment to an affiliate of CGE	(25,500)	-	-
Debt issuance costs	(12,792)	(4,295)	-
Net cash provided by financing activities	786,653	91,285	97,479
Net increase in cash and cash equivalents	20,441	(1)	(3,812)
Cash and cash equivalents at beginning of period	70	71	3,883
Cash and cash equivalents at end of period	$ 20,511	$ 70	$ 71
Supplemental cash flow information			
Cash payments:			
Interest (net of amounts capitalized)	$ 64,860	$ 23,200	$ 19,745
Income taxes	2,051	5,121	6,582
Supplemental schedule of noncash investing and financing activities:			
Conversion of construction loans to term loans	132,340	-	128,121
Capital expenditures temporarily financed by construction payables	-	162,751	1,192
Notes receivable from sale of Common Stock to employees	7,081	-	-

See notes to consolidated financial statements.

1. Organization and Nature of Operations

Sithe Energies, Inc. ("Sithe"), which was formed in 1984, and its subsidiaries (collectively, the "Company") are primarily engaged in the development, construction, ownership and operation of non-utility electric generating facilities. As of December 31, 1993, Sithe owned or leased through its subsidiaries 20 operating power plants in the United States with an aggregate installed capacity of 523 megawatts ("MW"). In addition, Sithe had three plants under construction with a projected aggregate capacity of 1,229 MW: the 1,000 MW Independence project and the 79 MW AG-Energy project, both in upstate New York, and the 150 MW Cardinal project in Ontario, Canada, and had five projects in active development with a projected aggregate capacity of 364 MW, including the 150 MW Smithfield A project in Sydney, Australia.

Sithe is controlled by Compagnie Generale des Eaux ("CGE") and an officer of Sithe. CGE is one of France's leading municipal services companies and the world's largest water distribution company. At December 31, 1993, CGE, together with its wholly-owned subsidiary, National Energy Development Corporation ("NEDC"), owned approximately 62% of the Common Stock of Sithe.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Sithe and all of the subsidiaries and partnerships in which it has a majority ownership interest as well as the accounts of a 50% owned partnership in which the Company has effective control through majority representation on the board of directors of the general partner. All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 1993 presentation.

The minority interests of certain third parties in the income of certain consolidated subsidiaries and partnerships are reported in the consolidated statements of income net of income taxes of $2.1 million in 1993, $1.7 million in 1992 and $1.3 million in 1991.

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits, commercial paper and certificates of deposit that mature within three months of their purchase.

Depreciation and Amortization

Depreciation of electric and steam generating facilities is computed using the straight-line method over the shorter of the estimated economic or service lives of the respective assets (ranging from 15 to 40 years).

Goodwill, representing costs in excess of fair value of net assets acquired, relates to a pre-1989 acquisition and is being amortized over 40 years on a straight-line basis. The Company evaluates the carrying amount of goodwill on an annual basis using the recoverability from operating income methodology.

Natural Gas Exploration and Development

Natural gas exploration and development costs are accounted for under the full cost method and are amortized using the units-of-production method over production from proved reserves. Exploration and development costs of proved and unproved properties are capitalized, and the carrying value of unamortized costs is limited to the present value of estimated future net revenue from proved reserves. Costs associated with unproved properties are excluded from the amortization base until the related properties are evaluated. At December 31, 1993 and 1992, all capitalized costs had been evaluated and included in the amortization base. Sales of properties are credited to the full cost pool unless the sale would have a significant impact on the amortization rate.

Interest During Construction

The Company capitalizes interest on qualifying construction expenditures. The total amounts of interest costs incurred during 1993, 1992 and 1991 were $101.5 million, $34.2 million and $27.8 million, respectively, of which $34.9 million, $9.5 million and $7.9 million, respectively, were capitalized. See Note 3 for information with respect to net interest expense recognized in 1993 in connection with the financing of the Independence project.

Project Development Costs

The Company capitalizes costs of developing new projects when management determines it is probable that the project will proceed to the construction phase. Such determination is based on the facts and circumstances for each project, and reflects the legal, political and regulatory environment in the country where the project is being developed. In the United States, capitalization normally begins when a power sales agreement has been executed, or in the case of hydroelectric projects, after requisite federal licenses have been obtained.

With respect to its 44 MW Phoenix development project in Greeley, Colorado, the Company has been proceeding with project development based on an April 1993 amendment to its power sales agreement with Public Service Company of Colorado which has been pending approval by the Colorado Public Utilities Commission ("PUCC"). The Company is negotiating alternative pricing mechanisms with the PUCC staff. The negotiations commenced following an administrative law judge's recommendation to the PUCC in January 1994 that the amendment transferring the contract to the Phoenix facility be disapproved. The Company believes its alternative pricing proposals will result in the PUCC's approving the transfer.

Project Impairments

The Company continually evaluates the operating and financial performance of its projects. If a project is determined by management to be permanently impaired, the capitalized costs are written down to estimated recoverable value determined by estimates of salvage value or the risk adjusted net present value of the estimated future cash flows for the project.

The provision for project impairments of $17.7 million in 1992 consists principally of $13.8 million representing the excess of net book value over estimated recoverable value for the Feather River plant that was subsequently sold in 1993 with the remainder attributable to the write-off of development costs for certain hydroelectric development projects for which management decided to surrender the licenses and cease development and the write down of certain other assets.

Debt Issuance Costs

Legal fees and other direct costs incurred in connection with obtaining financing are deferred and amortized to interest cost using the interest method over the term of the related debt.

Construction Payables

Construction payables that will be financed from drawdowns under existing construction loan agreements are classified as long-term debt. The $166.8 million of construction payables classified as long-term debt at December 31, 1992 included $137.4 million relating to the Independence project for which financing was obtained in January 1993. The $61.6 million of construction payables classified in other long-term liabilities at December 31, 1993 will be financed through liquidations of short-term investments designated for Independence construction.

Maintenance and Repairs

Routine maintenance and repairs are charged to expense as incurred. The estimated cost of scheduled major equipment overhauls is normalized through systematic charges to cost of sales.

Deferred Gains on Sale/Leaseback Transactions

Deferred gains on sale/leaseback transactions, representing the proceeds received in excess of construction costs, are amortized as a reduction to lease expense on a straight-line basis over the terms of the related operating leases.

Revenue Recognition

Revenue from the sale of electricity and steam, including sales under power sales agreements referred to as project tracking contracts which are discussed in Note 9, are recorded based upon output delivered and capacity provided at the payment rates as specified under contract terms. Revenue from performance bonuses is recognized at the time specified targets are achieved. Sales of natural gas from productive wells are recognized as produced.

Electric utility customers accounting for more than 10% of revenue in each of the last three years were as follows:

	1993	1992	1991
Niagara Mohawk Power Corporation	34%	18%	2%
San Diego Gas & Electric Company	22	24	29
Public Service Company of Colorado	14	16	18
Pacific Gas & Electric Company	2	11	17

Income Taxes

Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting of income taxes. In 1991 and prior years, the Company followed the deferred method under which the provision for income taxes was based on income before income taxes and deferred income tax balances were not adjusted for subsequent changes in tax rates.

3. Independence Project Financing

In January 1993, Sithe/Independence Funding Corporation, a wholly-owned subsidiary of Sithe/Independence Power Partners, L.P. (the "Partnership"), in which Sithe and certain of its wholly owned subsidiaries (the "Partners") hold all the Partnership interests, issued $717.2 million of investment grade rated secured notes and bonds and loaned the proceeds of the securities to the Partnership for the purpose of financing the development, construction and commencement of commercial operation of the 1,000 MW Independence project located in the County of Oswego, New York. The securities are guaranteed by the Partnership and secured by substantially all of the assets of the Partnership. Estimated capital costs for the project including working capital and debt service reserve requirements are approximately $883 million. The project is scheduled to commence commercial operation in November 1994. The Partnership and certain project participants are required to obtain certain permits and regulatory approvals necessary for completion and operation of the project, not all of which can be obtained until the project is constructed.

The Company's results of operations for 1993 were significantly impacted, and results for 1994 will be affected to a lesser extent, by the recognition of interest expense required with respect to the "negative interest arbitrage" associated with such financing. In that regard, proceeds from the issuance of such securities, which included an amount sufficient to pay interest on the securities during the construction period, were deposited in various restricted funds that are being administered by an independent trustee pursuant to a trust indenture. The trust indenture restricts investment of fund balances to high-quality, short-term financial instruments. The net interest expense resulting from the excess of the 8.65% weighted average interest rate on the securities over the rate earned on the investment of the unspent funds is required to be charged against earnings. Such accounting treatment has no impact on the Company's liquidity. Negative interest arbitrage amounted to $21.5 million in 1993, reducing after-tax results by $13.7 million, or $.27 per share. Although the amount of negative interest arbitrage will vary depending on the rate of construction spending and the movement of short-term interest rates, the Company presently estimates that negative interest arbitrage will reduce net income for 1994 by approximately $4.2 million, or $.08 per share.

Also, in January 1993, the Company posted a $40 million letter of credit, collateralized by $40 million of short-term investments designated for construction, to secure its remaining capital contribution to the project. The Company also obtained a $35 million letter of credit facility in connection with its obligations pursuant to certain of the project contracts. The Partnership also secured the project's debt service reserve fund with a letter of credit in the amount of $50 million and entered into a working capital facility for a maximum available amount of $20 million which may be drawn upon, at the option of the Partnership, at the time the Partnership is obligated to make its first payment for natural gas or on the date of commercial operation of the project.

4. Borrowings

Liquidity and Lines of Credit

In August 1993, the Company consolidated its corporate lines of credit, including the $35 million letter of credit facility related to the Independence project, into a $140 million senior secured revolving credit facility with a group of banks led by Union Bank and Banque Nationale de Paris. The facility is available until February 3, 1996 for the issuance of standby letters of credit and up to $30 million of revolving loans. The commitment fee on the unused portion of the facility is 3/8 of 1%. Interest on revolving loans is payable at the Company's election at either LIBOR plus 1 3/4% or the higher of the prime rate or the federal funds rate plus 1/2% for the first eighteen months increasing by 1/2% thereafter. Letter of credit fees range from 1 1/2% to 1 3/4%. The most restrictive covenants of the credit facility limit annual dividends to the lower of $2 million or 25% of excess cash flow (as defined), restrict and cap other corporate borrowings to $50 million of subordinated borrowings from affiliates of CGE and significantly limit repayment of borrowings from affiliates of CGE. The Company has pledged its equity interest in certain projects as collateral.

At December 31, 1993, there were no outstanding borrowings under such facility, and outstanding letters of credit issued under such facility amounted to $96.9 million for a $43.1 million balance of credit available as of such date. The $16.1 million of the borrowings under lines of credit at December 31, 1992 were classified as long-term since they were refinanced in January 1993 in connection with the completion of financing for the Independence project.

Also, at December 31, 1993, in addition to the $50 million letter of credit posted by the Partnership as discussed in Note 3, there were $13.4 million of outstanding letters of credit issued by certain other partnerships in support of project requirements.

Nonrecourse Project Debt

At December 31, 1993 and 1992, outstanding nonrecourse project debt which is secured by substantially all of the Company's property, plant and equipment and project agreements consisted of the following (in thousands):

	December 31,	
	1993	1992
Independence notes and bonds:		
7.90% notes payable in semiannual installments commencing June 1995 and due 2002	$ 157,793	$ -
8.50% secured bonds payable in semiannual installments commencing June 2003 and due 2007	150,839	-
9.00% secured bonds payable in semiannual installments commencing December 2007 and due 2013	408,609	-
Nonrecourse construction loans:		
AG-Energy – variable rate (4.69% at December 31, 1993) to be refinanced with a committed $92 million 12-year term loan in 1994	80,599	43,099
Cardinal – fixed rate of 9.70% to be refinanced with a committed 20-year term loan in 1994 under a Canadian dollar facility equivalent to U.S. $110 million	77,051	25,964
Nonrecourse term loans repayable primarily in quarterly installments:		
Gas Drilling – variable rate (5.72% at December 31, 1993) due 1999	9,938	11,250
Greeley – fixed rate of 10.79% due 2003	42,296	44,670
Batavia – variable rate (4.63% at December 31, 1993) due 2006	67,121	62,527
Sterling – fixed rate of 10.72% due 2006	54,142	55,798
Alcoa – variable rate (4.38% at December 31, 1993) due 2007	37,934	49,266
Alcoa – fixed rate of 9.84% due 2007	24,039	25,250
Hazelton A – variable rate (4.44% at December 31, 1993) due 2007	7,393	7,605
Other Hydroelectric Projects – variable rate (6.69% at December 31, 1993) due 2016	12,605	13,607
Other	2,345	2,382
	1,132,704	341,418
Less current portion	13,292	22,251
Long-term portion	$1,119,412	$319,167

As required by the debt agreements for the AG-Energy, Batavia and Alcoa projects, the Company has entered into interest rate swap agreements for notional principal amounts at December 31, 1993 of $92 million, $67.1 million and $37.9 million, respectively, effectively changing the interest rates on such debt to weighted average fixed rates of 9.16%, 9.64% and 9.70%, respectively. The expiration dates of the swap agreements essentially coincide with the maturity dates of the related debt. With regard to the $12.6 million variable-rate loan due 2016, $7 million has a 9.75% fixed rate under interest rate swaps expiring in 1996 and 1998.

The debt agreements preclude dividends or distributions from the projects unless certain financial ratios and convenants are met by the project entities and until project reserve accounts for debt service, major equipment overhauls and other specific project obligations are funded to specified levels. As of December 31, 1993, all project reserve account requirements had been met with the deposit of restricted funds or the issuance of letters of credit and, except for the approximately 8 MW P&N plant where outstanding bonds amounted to $5 million, all project financial ratios and covenants had been met.

Other Long-Term Debt

Subordinated debentures have an effective interest rate of 11%, mature in 2005 and are subordinated to all existing and future senior indebtedness.

The other components of long-term debt include certain construction payables, capital lease obligations and payables to affiliates of CGE which are discussed in Notes 2, 8 and 11, respectively.

Maturities of Long-Term Debt

Aggregate maturities of long-term debt, excluding capital lease obligations, and assuming repayments to affiliates of CGE of $15 million in 1995 and $30.2 million in 1996 (See Note 11), are estimated as follows: $13.3 million in 1994, $44.3 million in 1995, $52.6 million in 1996, $31.3 million in 1997 and $46.1 million in 1998.

5. Income Taxes

Change in Accounting for Income Taxes

Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting of income taxes. Under the new method, deferred income tax assets and liabilities are recognized for the estimated future income tax effects of temporary differences between taxable income and pre-tax accounting income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets are also established for the estimated future effect of net operating loss and tax credit carryforwards when it is more likely than not that such assets will be realized. Deferred taxes are calculated based on provisions of the enacted tax law, and possible future changes in tax laws or rates are not anticipated.

The cumulative effect of the change in the method of accounting on years prior to 1992 was recorded as of January 1, 1992 and increased net income for 1992 by $19.8 million, or $.45 per share. The accounting change also reduced goodwill by $10 million to recognize the tax benefits of pre-acquisition operating loss and tax credit carryforwards of purchased subsidiaries. Financial statements for years prior to 1992 have not been restated for the change in accounting.

The net deferred tax asset of $36.5 million at December 31, 1993 relates principally to temporary differences of $17 million relating to taxable gains on sale/leaseback transactions deferred for accounting purposes, investment, energy and alternative minimum tax credit carryforwards of $22.4 million and future tax benefits of $16.2 million for net operating loss carryforwards, partly offset by net deferred tax liabilities of $19.1 million relating principally to temporary differences between the book and tax bases of fixed assets. Based on the long-term power sales agreements and fuel supply contracts in place for the Company's 20 operating plants and three plants under construction, management is confident that the Company will generate a level of future taxable income that will be more than sufficient to realize within applicable carryforward periods the net deferred tax asset at December 31, 1993.

Provision for Income Taxes

The Company files consolidated federal and, where applicable, combined state income tax returns. The provision for income taxes consists of the following (in thousands):

	1993	1992	1991
Current			
Federal	$ 875	$7,391	$2,050
State	17	716	583
	892	8,107	2,633
Deferred			
Federal	1,350	(1,866)	(64)
State	334	1,072	742
	1,684	(794)	678
	$2,576	$7,313	$3,311

The provision for income taxes differs from the amounts computed by applying the federal statutory rate to income from continuing operations before income taxes, as follows (dollars in thousands):

	1993		1992		1991	
	Amount	%	Amount	%	Amount	%
Amounts computed by applying federal statutory rate	$2,567	35%	$5,690	34%	$6,323	34%
State income taxes, net of federal tax benefit	228	3	1,180	6	875	5
Amortization of goodwill	470	6	457	3	559	3
Investment and energy tax credits	-	-	-	-	(4,000)	(21)
Effect of increase in statutory rate	(347)	(5)	-	-	-	-
Other	(342)	(4)	(14)	1	(446)	(3)
	$2,576	35%	$7,313	44%	$3,311	18%

As of December 31, 1993, corporate entities included in the consolidated group had net operating loss carryforwards for federal income tax purposes of approximately $46.4 million scheduled to expire as follows: $1.5 million in 2001, $13.7 million in 2002, $15.4 million in 2003, $3.8 million in 2004 and $12 million in 2006; investment and energy tax credit carryforwards of approximately $11.8 million scheduled to expire as follows: $1.2 million in 2001, $1.9 million in 2002, $7.5 million in 2003 and $1.2 million in 2005; and alternative minimum tax credit carryforwards of approximately $10.6 million with no expiration date. Annual use of these carryforwards is subject to the ability of certain entities to generate taxable income and the requirements of the alternative minimum tax regulations.

6. Financial Instruments

Financial instruments which potentially subject the Company to concentrations of risk consist principally of temporary cash investments, short-term investments designated for construction and trade receivables. The Company invests its temporary cash balances and short-term investments designated for construction in U.S. government obligations and financial instruments of highly-rated financial institutions with average maturities generally less than six months. A substantial portion of trade receivables are from major regulated electric utilities and the associated credit risks are limited.

The carrying values reflected in the balance sheet at December 31, 1993 and 1992 reasonably approximate the fair values for cash and cash equivalents, restricted funds, trade receivables and payables, short-term investments designated for construction, borrowings under lines of credit, construction payables and variable-rate long-term debt. In making such assessment, the Company utilized credit reviews, quoted market prices and discounted cash flow analyses as appropriate. The Company estimates that the fair values of its fixed-rate borrowings at December 31, 1993 and 1992 were $1,002.1 million and $164.8 million, respectively, which were $87.3 and $13.1 million, respectively, higher than the historical carrying values of $914.8 million and $151.7 million, respectively.

As discussed in Note 4, the Company enters into interest-rate swaps with major financial institutions to lock in interest rates on its variable-rate, long-term debt. The differential paid or received is recognized as an adjustment to interest expense. The Company continually monitors its positions with, and the credit quality of, the counterparties to such agreements. The Company estimates that to liquidate its interest-rate swap positions at December 31, 1993 and 1992 it would have cost approximately $30.4 million and $17.6 million, respectively.

7. Capital Stock

Effective June 23, 1993, the Company amended and restated its Certificate of Incorporation to authorize additional shares of Common Stock and to change the par value of Common Stock. The number of authorized shares of Common Stock was increased to 100 million shares, and the par value of Common Stock was changed to $.01 per share. Additionally, the Common Stock then outstanding was split on a 34,000-for-1 basis resulting in 34,000,000 outstanding shares, and 10,384,615 shares of Common Stock were issued in exchange for the Special Common Stock held by an affiliate of CGE. Share and per share amounts in the accompanying consolidated financial statements have been retroactively restated to reflect the stock split, the change in par value and the exchange of Special Common Stock which increased outstanding shares of Common Stock to 44,384,615. In addition, 50,000 shares of preferred stock, par value $.01 per share, were authorized for future issuance.

On June 23, 1993, the Company issued 10.8 million shares in an initial public offering of its Common Stock which increased outstanding shares of Common Stock to 55,184,615. Net proceeds from the offering amounted to $121.7 million, of which $40 million was used to repay an affiliate of CGE for a borrowing in December 1992 that was used to cash collateralize a letter of credit securing the Company's remaining equity requirement for the Independence project, $55.9 million was used to liquidate a substantial portion of the remaining balance of payables to affiliates of CGE, which included a dividend of $25.5 million declared March 31, 1993 on the Special Common Stock previously held by an affiliate of CGE, and the balance of $25.8 million was applied largely to reduce outstanding bank debt. In connection with the initial public offering, the Company loaned $7.1 million to certain employees to enable them to acquire 544,722 shares of Common Stock (See Note 11).

Average shares outstanding for 1993 reflect a weighted averaging of shares of Common Stock outstanding before and after the initial public offering.

During 1993, the Company adopted the 1993 Stock Award and Incentive Plan (the "1993 Plan") under which a maximum of 3,807,738 shares of Common Stock have been reserved for the issuance of stock options and other awards. In connection with the Company's initial public offering in June 1993 and pursuant to the 1993 Plan, the Company granted stock options for an aggregate of 764,000 shares with an exercise price equal to the initial public offering price of $13.00 per share. The options become exercisable in installments of 20% at the end of each of the first five years following the date of grant. At December 31, 1993, all such options were outstanding and 3,043,738 shares were reserved for future grants under the 1993 Plan.

8. Commitments and Contingencies

Capital and Operating Leases

Two subsidiaries lease three cogeneration plants under capital leases that are guaranteed by a subsidiary of Sithe and have terms expiring in 1996 and 1998. Property, plant and equipment at December 31, 1993 and 1992 includes equipment under capital leases of $7.7 million and $8 million, respectively, net of accumulated amortization of $1.8 million and $1.5 million, respectively.

In 1990 and prior years, the Company sold and leased back under noncancelable operating leases certain hydroelectric and gas-fired cogeneration facilities. The leases of such facilities include the following terms: (i) initial terms of 15 to 30 years, (ii) the Company's ability to extend the terms of certain leases, and (iii) noncontingent scheduled rental payments which the Company is recognizing on a levelized basis. The Company has no continuing involvement with the facilities beyond that of a normal leaseback and, therefore, has accounted for these transactions as sale/leasebacks.

Operating leases for hydroelectric and cogeneration facilities have remaining terms of ten to 27 years and other noncancelable operating leases for office space, equipment and facility sites have remaining terms of one to 11 years. Total lease expense under all noncancelable operating leases in 1993, 1992, and 1991 amounted to $34.5 million, $36.1 million and $35.8 million, respectively, net of amortization of deferred gains of $2.6 million, $2.4 million and $2.1 million, respectively.

At December 31, 1993, future minimum lease payments under capital and operating leases were as follows (in thousands):

	Capital Leases	Operating Leases
1994	$2,005	$ 43,560
1995	2,110	44,905
1996	1,620	45,883
1997	1,596	44,412
1998	1,393	43,923
Thereafter	-	452,131
Future minimum lease payments	8,724	$674,814
Less amounts representing interest	1,879	
Present value of future minimum lease payments (including current portion of $1,371)	$6,845	

Employee Benefit Plans

The Company sponsors a defined contribution 401(k) savings plan for its full-time employees. The Company matches employees' contributions to the plan up to specified limitations. Company contributions to the plan were $.6 million in 1993, $.5 million in 1992 and $.4 million in 1991. The Company does not provide any post-retirement benefits to its employees.

Litigation and Claims

The Company is a defendant in legal actions arising from activities conducted in the normal course of business. Management, after consultation with legal counsel, believes that the ultimate liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position or results of operations.

Other

The Company enters into long-term gas supply contracts to facilitate the financing of its projects and to ensure adequate gas supplies for their operation. Aggregate minimum commitments under such contracts over the next five years which reflect the commencement of the Independence project's gas contracts in 1995 are as follows: $61 million in 1994, $175 million in 1995 and $200 million in 1996, 1997 and 1998.

A petition requesting permission to curtail (i.e., limit or suspend) purchases of power from independent power producers was filed by Niagara Mohawk Power Corporation ("Niagara Mohawk"), and the New York Public Service Commission (the "PSC") instituted a proceeding to consider the merits of the petition. The curtailment proceeding has been postponed indefinitely. Six of the Company's projects have power sales agreements with Niagara Mohawk covering approximately 478 MW. A decision permitting Niagara Mohawk to implement curtailment could adversely affect the operating revenues of such projects.

In March 1993, Niagara Mohawk filed with the PSC a petition for declaratory order that the Independence project's proposed retail sale of electricity to Alcan Aluminum Corporation ("Alcan") could not be effected without prior PSC approval. On February 9, 1994, the PSC issued a declaratory ruling in the Alcan case. The PSC ruled that retail sales by the Partnership to Alcan and a containerboard recycling facility would be subject to some form of regulation, including rate regulation, and a requirement that the Partnership obtain a Certificate of Public Convenience and Necessity ("CPCN") prior to making such sales. The PSC suggested a lightened regulatory regime may be suitable for the Partnership. On February 18, 1994, the Partnership submitted a proposal for such lightened regulation and its application for the CPCN. On March 4, 1994, the New York State Energy Office and the New York State Department of Economic Development and others submitted letters to the PSC supporting the Partnership's position and recommending that the contract with Alcan and any future contract with the containerboard recycling facility not be disturbed. On March 7, 1994, Niagara Mohawk submitted its opposition to the Partnership's proposal. The PSC order of February 9, 1994 stated that this matter would be resolved expeditiously. The Partnership is awaiting the PSC's ruling. The PSC has also instituted a related proceeding to consider statutory and regulatory issues raised by the growing competition in the retail electricity market. An adverse ruling by the PSC in either of such proceedings could negatively impact either the retail sales prices to be received by the Partnership or the Partnership's ability to make such retail sales.

9. Project Tracking Contracts

Project tracking contracts are those that provide for (a) scheduled, fixed or increasing-rate pricing, as applicable, for the initial 15 years of the contracts with the scheduled pricing based on the applicable Public Utility Commission approved long- run avoided cost ("LRAC") estimates at the time the contracts were signed, (b) tracking of the scheduled pricing against what it otherwise would have been if based on the applicable utility's actual avoided cost and (c) adjustment to avoided-cost based pricing over the remainder of the contracts toward repayment of any accumulated, interest effected tracking balances. The tracking balances are secured by the project assets and are otherwise totally nonrecourse. Project tracking contracts cover 318 MW or 18% of the Company's 1,752 MW of capacity in operation and under construction at December 31, 1993. Management has made an assessment, based on its preliminary estimates of the tracking balances at the end of such fifteen-year period and assuming current trends continue, that such balances may be significant and that as of the end of such period, it may terminate its ownership of or leasehold interest in a substantial majority of these projects unless it can renegotiate the terms of such power sales agreements. Accordingly, except for two hydroelectric projects (approximately 32 MW), capital costs applicable to such projects are being depreciated over the initial fifteen-year periods of the contracts. However, the preliminary estimates are a function of numerous variables, including, among other things, energy prices, interest rates and levels of commercial and industrial activity, each of which is subject to significant fluctuations depending upon domestic and global economic and political conditions over the remaining lives of the agreements which in all instances are more than 15 years.

In May 1992, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus with respect to revenue recognition for project tracking contracts and for certain other types of long-term power sales agreements with application of the consensus required for contracts entered into after May 21, 1992. All of the Company's project tracking contracts were entered into prior to such date. In summary, the EITF determined that if a power sales agreement provides that total revenue over the term of the contract is determined or limited by separate formula-based pricing arrangements (i.e., a project tracking contract), revenue should be recognized based on the separate, formula-based calculation. The EITF also determined that revenue on power sales agreements that contain scheduled price changes should be recognized at the lower of the amount billed under the contract or an amount based on the estimated average revenue per kilowatt hour over the term of the contract. On the latter-type contracts, the Company's present revenue recognition policy achieves the consensus result.

The following table presents on a pro forma basis selected unaudited financial data assuming that the Company restated its financial statements to retroactively apply the EITF consensus with respect to revenue recognition for project tracking contracts (in thousands, except per share data):

	Years Ended December 31,		
	1993	1992	1991
Revenue	$254,368	$224,002	$183,589
Income (loss) from continuing operations	(5,891)	413	8,151
Income (loss) before cumulative effect of change in accounting for income taxes	(8,003)	(4,675)	7,959
Net income (loss)	(8,003)	15,154	7,959
Earnings (loss) per share information:			
Income from continuing operations	$ (.12)	$ .01	$ .18
Income (loss) before cumulative effect of change in accounting for income taxes	$ (.16)	$ (.11)	$ .18
Net income (loss)	$ (.16)	$ .34	$ .18

	As of December 31,	
	1993	1992
Project tracking balance	$ 34,941	$23,496
Stockholders' equity	$142,895	$54,934

On March 4, 1994, AG-Energy, L.P., Power City Partners, L.P., Seneca Power Partners, L.P. and Sterling Power Partners, L.P., four limited partnerships of which the Company is the indirect general partner (collectively, the "NIMO Partnerships"), commenced an action in New York Supreme Court in Manhattan against Niagara Mohawk seeking a declaratory judgement that Niagara Mohawk has no right to demand assurances of the NIMO Partnerships' future performance of the respective power sales agreements between Niagara Mohawk and the NIMO Partnerships, and that those agreements remain in full force and effect. The action was filed in response to four nearly identical letters (the "NIMO Letters") in which Niagara Mohawk demanded that each of the NIMO Partnerships provide adequate assurances that it would duly perform all of its projected future repayment obligations under its respective power sales agreement with Niagara Mohawk, including the obligation to repay in full the balance which Niagara Mohawk currently expects to remain in the tracking account at the end of the term of the power sales agreement.

In the NIMO Letters, Niagara Mohawk asserted that due to changes in economic conditions, it has projected that the tracking account balances will favor it by such a large amount that the NIMO Partnerships will be more likely to abandon the plants following the 15th year of the agreements (which will occur in the years 2007 and 2008) than to fulfill their contractual obligations. Niagara Mohawk also asserted in the NIMO letters that it would be entitled to terminate its performance under the respective power sales agreements if assurances of future performance by NIMO Partnerships were not forthcoming. The NIMO Partnerships responded on March 4, 1994 by letter to Niagara Mohawk stating that they intended to fully perform all of their obligations under the power sales agreements, as they have done at all times since the agreements were first executed. The Company believes that Niagara Mohawk's demand for assurances constitutes an attempt to force the Company to renegotiate each of such power sales agreements, which Niagara Mohawk currently projects may no longer economically advantageous to it.

10. Discontinued Operation

In the first quarter of 1994, a previously announced discontinued operation, in a business unrelated to independent energy production, was sold to an unrelated third party. The Company recorded a $2.1 million after-tax charge to fourth quarter 1993 net income to write off additional advances due to the later-than-expected disposition date. The Company's effective 20% interest in such operation was held through a partnership controlled by two individual shareholders of the Company. In 1992, after-tax charges to net income related to this operation were $5.1 million, including provisions to write off the investment and to cover estimated costs until disposition.

11. Related Party Transactions

Prior to the initial public offering of the Company's Common Stock in June 1993, the Company borrowed from or made advances to affiliates of CGE in the normal course of business. As discussed in Note 7, proceeds from the initial public offering were applied largely to liquidate a substantial portion of the balance of payables to affiliates of CGE which resultingly declined from $116.6 million at December 31, 1992 to $45.2 million at December 31, 1993. The borrowings at December 31, 1993 will be due no earlier than one year from receipt of notice from CGE, except that under the Company's revolving credit facility which expires on February 3, 1996, repayments of such borrowings are precluded except to the extent of $15 million in 1995 so long as the Independence project has commenced commercial operation and net worth of the Company (as defined) exceeds $215 million. An advance to an affiliate of CGE in the amount of $3.1 million at December 31, 1992 was substantially repaid in 1993. Interest rates on such borrowings or advances range from LIBOR plus 1% to a fixed rate of 10%, and interest charges for 1993, 1992, and 1991 amounted to $4.5 million, $5 million and $5.1 million, respectively.

In connection with the Company's initial public offering in June 1993 and pursuant to the 1993 Plan, the Company loaned $7.1 million to certain employees to enable them to acquire 544,722 shares of Common Stock. Each such loan is evidenced by a five- year, full recourse promissory note with interest at an annual rate equal to the prime rate (6.0% at December 31, 1993), but in no event less than 6.5%. Payments under the notes are secured by shares so acquired. The notes provide that the then outstanding principal amount thereof and all the accrued interest thereunder will become due and payable on the 180th day following the executive's voluntary termination of employment or his termination for cause (or, if earlier, on the maturity date of the note). The notes also provide that the then outstanding principal amount thereof and all accrued interest thereunder will be forgiven upon the executive's death, disability or involuntary termination of employment (other than for cause), upon Mr. Kriegel's ceasing to serve as Chief Executive Officer of the Company, or upon the achievement of specified performance goals.

Development related commissions earned by an officer, as well as an individual shareholder and an affiliate of CGE under an agreement that expired December 31, 1992, amounted to $2.2 million in 1992 and $1.9 million in 1991. The commission arrangements provided that each would be paid a commission equal to ½ of 1% of the Company's additional annual investment in projects under development and construction from the prior fiscal year, on a gross basis, with a maximum of $.4 million payable to the affiliate of CGE and $.6 million payable to each of the individuals, provided that such maximum amounts were adjusted on the basis of changes since 1985 in the Consumer Price Index for the New York metropolitan area.

A corporation wholly owned and controlled by an officer of the Company received development related fees of $1.7 million in 1992 and $1.6 million in 1991 and royalty fees of less than $.1 million in 1993, 1992 and 1991, representing a continuing royalty interest of .75% in the "operating margin" (as defined) of the Allegheny No. 8 and 9 projects.

During each of the years 1991 through 1993, an officer of the Company received loans bearing interest at 8% in the amounts of $2.1 million, $1.3 million and $.7 million, respectively, with the balance of the loans at December 31, 1992 amounting to $.7 million. The balance of the loans was liquidated in 1993 through repayment of $.9 million and the assignment by the Company of $.5 million of such loans to an individual shareholder in full satisfaction of accrued but unpaid development related commissions owed by the Company to such shareholder.

At December 31, 1992, a corporation which was instrumental in the development of two cogeneration projects held minority interests in such projects of 9% and 17.65%. The interests were acquired by the corporation prior to certain shareholders of the corporation becoming employees of the Company. In January 1993, the Company purchased the 9% minority interest for $5.5 million which was based on a negotiated discounting of the minority interest's share of the estimated future cash flows from the project. The purchase enabled the Company to increase its ownership in the project at a price which it considered to be favorable. Other current assets at December 31, 1992 included a $2.1 million secured loan to one such shareholder that was repaid in 1993.

In 1992, the discontinued operation referred to in Note 10 assigned $.9 million of its trade receivables to Sithe as partial payment of its advances payable to Sithe.

12. Other Income and Expense

Other income and expense consists of the following (in thousands):

	1993	1992	1991
Interest income	$17,029	$1,041	$1,338
Income relating to arbitration proceedings	-	8,138	3,342
Currency transaction gains (losses)	-	-	1,407
Other	(368)	(68)	-
	$16,661	$9,111	$6,087

Interest income for 1993 includes $13.7 million earned on short-term investments designated for construction of the Independence project. In 1991, the Company settled arbitration proceedings against certain construction contractors for $15.7 million, of which $3.1 million was recorded as a reduction to property, plant and equipment, and $4.5 million was included in other income as a recovery of all of the accumulated arbitration expenses which amounted to $1.2 million in 1991 and $3.3 million in 1990. Recognition of the remaining $8.1 million was deferred until 1992 when the Company sold the facility. The facility was sold for $95.2 million, of which $82 million was cash. A portion of the proceeds was used to repay the outstanding project debt of $45.6 million.

13. Quarterly Information (Unaudited)

	Quarters (a)				
	First	Second	Third	Fourth	Year
	(in thousands, except per share amounts)				
1993					
Revenue	$55,742	$67,995	$74,065	$65,318	$263,120
Operating income	9,983	16,308	20,371	10,589	57,251
Income (loss) from continuing operations	(1,366)	28	3,816	(1,503)	975 (b)
Net income (loss)	(1,366)	28	3,816	(3,615) (f)	(1,137) (b)
Earnings per share:					
Income (loss) from continuing operations	$ (.03)	$ -	$ .07	$ (.03)	$ .02 (b)
Net income (loss)	$ (.03)	$ -	$ .07	$ (.07) (f)	$ (.02)
Average shares outstanding	44,385	45,215	55,185	55,185	50,036
1992					
Revenue	$53,032	$55,973	$70,216	$54,134	$233,355
Operating income (loss)	6,684	10,746	24,360	(9,476) (c)	32,314
Income (loss) from continuing operations	140	2,542	15,205	(10,987) (c)	6,900
Income (loss) before cumulative effect of change in accounting for income taxes	140	2,542	15,205	(16,075) (d)	1,812
Net income (loss)	19,969 (e)	2,542	15,205	(16,075) (d)	21,641
Earnings per share:					
Income (loss) from continuing operations	$ -	$ .06	$ .34	$ (.24) (c)	$ .16
Income (loss) before cumulative effect of change in accounting for income taxes	$ -	$ .06	$ .34	$ (.36) (d)	$ .04
Net income (loss)	$ .45 (e)	$ .06	$ .34	$ (.36) (d)	$ .49
Average shares outstanding	44,385	44,385	44,385	44,385	44,385

(a) Revenues and operating results at the Company's California plants and hydroelectric facilities are subject to seasonal variations. The California plants earn most of their annual capacity payments during May through October of each year.

(b) Negative interest arbitrage, or non-capitalized net interest expense, associated with the project financing and temporary investing of restricted funds for the Independence construction project reduced after-tax results for 1993 by $13.7 million, or $.27 per share, with the quarterly per share impact amounting to $.07, $.09, $.06 and $.05, respectively.

(c) A provision for project impairments of $14 million reduced after-tax results in the fourth quarter of 1992 by $8.4 million, or $.19 per share.

(d) Net income in the fourth quarter of 1992 was additionally affected by an after-tax charge of $5.1 million, or $.11 per share, for a discontinued operation unrelated to independent energy production which was disposed of in the first quarter of 1994.

(e) Net income in the first quarter of 1992 reflects an after-tax credit of $19.8 million, or $.45 per share, representing the cumulative effect on years prior to 1992 of adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

(f) Includes $2.1 million after-tax charge related to the final disposition of the discontinued operation discussed in (d) above.

FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below for, and at the end of, each of the years in the five-year period ended December 31, 1993 are derived from the Company's audited consolidated financial statements.

	Years Ended December 31,				
	1993	1992	1991	1990	1989
	(in thousands, except per share data)				
Statement of Operations Data					
Revenue	$263,120	$233,355	$189,021	$ 168,052	$89,883
Gross profit	69,150	57,190	40,435	39,101	13,854
Provision for project impairments	-	17,720	1,237	-	5,000
Operating income	57,251	32,314	32,427	31,561	1,899
Interest expense and other income, net	49,916 (a)	15,577	13,830	25,028	17,458
Income (loss) from continuing operations	975 (a)	6,900	13,103	1,809	(18,874)
Net income (loss)	(1,137)(b)	21,641 (c)	12,916	1,809	(18,874)
Earnings (loss) per share:					
Income (loss) from continuing operations	$ .02 (a)	$ .16	$ .30	$ .04	$ (.43)
Net income (loss)	$ (.02)(b)	$ .49 (c)	$ .29	$ .04	$ (.43)
Average shares outstanding (e)	50,036	44,385	44,385	44,385	44,385

	As of December 31,				
	1993	1992	1991	1990	1989
	(in thousands)				
Balance Sheet Data					
Property, plant and equipment, net	$1,024,704	$627,907	$417,723	$314,589	$309,513
Short-term investments designated for construction	316,304	40,000	-	-	-
Total assets	1,549,201	839,789	546,297	439,113	426,639
Long-term debt	1,200,673	630,068	344,523	235,588	220,428
Stockholders' equity (d)	166,645	71,817	61,661	68,189	75,658

(a) Interest expense and other income, net, for 1993 reflects a net pre-tax charge of $21.5 million for negative interest arbitrage, or non-capitalized net interest expense, associated with the project financing and temporary investing of restricted funds for the Independence project. Such charge reduced after-tax results for 1993 by $13.7 million, or $.27 per share. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Interest Expense and Other Income" for an explanation of the $12.8 million balance of the increase in interest expense and other income, net in 1993 compared with 1992.

(b) Reflects an after-tax charge of $2.1 million, or $.04 per share, for a discontinued operation unrelated to energy production that was disposed of in the first quarter of 1994.

(c) Net income for 1992 reflects an after-tax credit of $19.8 million, or $.45 per share, representing the cumulative effect on years prior to 1992 of adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and an after-tax charge of $5.1 million, or $.11 per share, for the discontinued operation discussed in (b) above.

(d) Dividends declared prior to the initial public offering on the Special Common Stock held by CGE amounted to $25.5 million in 1993, $11.5 million in 1992, $19.4 million in 1991 and $9.3 million in 1990. No dividends were declared prior to 1990.

(e) The share information reflects a weighted averaging in 1993 of the 55,184,615 shares of Common Stock outstanding after the public offering of 10,800,000 shares of Common Stock on June 23, 1993 and the 44,384,615 shares of Common Stock outstanding immediately prior to the public offering, and a retroactive restatement to give effect to the following which also occurred on June 23, 1993: the 34,000-for-one Common Stock split and the issuance of 10,384,615 shares of Common Stock in exchange for the Special Common Stock previously held by an affiliate of CGE.

Directors

William Kriegel
Chairman of the Board, Chief Executive Officer and President

Steven D. Burton
General Counsel and Secretary

Guy Dejouany
Chairman of the Board, Chief Executive Officer and President, Compagnie Générale des Eaux

Martha O. Hesse
President, Hesse Gas Company

W. Harrison Wellford
Partner, Latham & Watkins

Officers

William Kriegel
Chairman of the Board, Chief Executive Officer and President

Steven D. Burton
General Counsel and Secretary

Bruce J. Wrobel
Executive Vice President

Rosalie J. Wolf
Executive Vice President

Richard J. Cronin III
Chief Financial Officer and Vice President

Frank J. Donohue
Senior Vice President for Construction

Ralph J. Grutsch
Senior Vice President for Operations

Sandra J. Manilla
Treasurer

Corporate Information

Investor Information
(Including Form 10-K)
Investor Relations Department
Sithe Energies, Inc.
450 Lexington Avenue
New York, NY 10017
(212) 450-9000

Stock Market Information
Listing: New York Stock Exchange
Symbol: SYT

Stock Transfer Agent
Chemical Bank
450 West 33rd Street
New York, NY 10001

Annual Meeting
May 11, 1994 at 9:00 am
Inter-Continental Hotel
11 East 48th Street
New York, NY 10017

Independent Auditors
Deloitte & Touche
San Diego, CA