



About this report

This report is published to share information to PNM Resources stakeholders about the company's environmental, social and economic performance.

The data included applies to calendar year 2005. This is the second annual sustainability report we have published.

This report informally follows Global Reporting Initiative (GRI) guidelines for sustainability reporting. We have adopted an incremental approach to adopting GRI guidelines, which we expect to follow more strictly in future reports as resources allow.

Much of the content of this report pertains to utility subsidiary PNM. Subsidiary companies Texas-New Mexico Power and First Choice Power were acquired mid-way through 2005. Future reports will include significantly more information about these subsidiaries.

Any questions or comments about this report should be directed to Jeff Burks, PNM Resources Director of Environmental Sustainability at Jeff.Burks@PNMResources.com.

About the cover

On the front cover, Aura Guimond celebrates a recent tree planting as it "takes root." Aura lives in Albuquerque and attends Montezuma Elementary School. On the back cover, Aura hugs grandpa Rich Braziel, a PNM employee since 1976. Rich has been a PNM Sky Blue™ wind energy subscriber since the program started. He works in PNM Wholesale Power Marketing.

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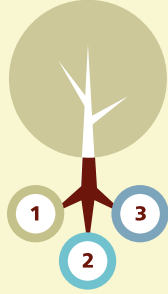
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SUSTAINABILITY

1

ENVIRONMENT

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ECONOMY

PNM Resources defines sustainability as balancing environmental, social and economic concerns. When proper consideration is given to these elements, a company grows strong roots and assures a sustainable future.

Taking root

In our company's first annual sustainability report, I described PNM Resources' plans to grow our merchant utility around a sustainable business model and our commitment to balance environmental, social and economic considerations in our business decisions and operations. I committed to report back regularly on the progress we are making to become a more sustainable business and to improve our environmental performance.



Jeff Sterba, Chairman, President & CEO, PNM Resources

Sustainability is taking root and growing at PNM Resources. This report lists our achievements and the challenges we faced in 2005. It also provides a window into how we are thinking about the future and how we intend to achieve our corporate vision of building America's best merchant utility by applying principles of sustainability to our business strategies and operations.

For PNM Resources, you can find the seeds of sustainability and the ground we are cultivating in our corporate High Level Objectives: Customer Loyalty; Work Place Excellence; Environmental Sustainability; Shareholder Value; and Community Leadership.

Each objective identifies the ground we need to break to grow our commitment to the "triple bottom line" of sustainability. By tending to these objectives we can succeed in achieving

outstanding financial performance for our shareholders; continuous environmental improvement in our operations, affordable and reliable energy services for our customers, and strong programs that foster economic development and social opportunities for the customers and communities we serve.

In 2005 we saw strong evidence that sustainability is taking root in our company, and I am particularly pleased to see environmental stewardship branching out across our business enterprise.

We saw measurable progress toward meeting our five-year environmental goals of reducing air emissions and fresh water use. We have grown our PNM Sky Blue™ wind energy program by 22 percent and achieved top 20 ranking by the National Renewable Energy Laboratory.

We made strides in quantifying and reducing our waste streams, and created an innovative program to encourage customers to invest in solar photovoltaic systems for their homes and businesses.

In 2005, we demonstrated our commitment to our communities in a number of ways including:

- \$5.5 million in shareholder-funded corporate contributions to support community programs and projects, including \$150,000 in matching funds for Hurricane Katrina relief. Combined with employee and customer donations, we were able to raise more than \$500,000 to help those affected by the hurricane
- Nearly \$630,000 from the PNM Resources Foundation contributed to community-based organizations
- A corporate and employee combined total of nearly \$1,030,000 donated to United Way organizations in our Texas and New Mexico service territories
- Line crews traveling to the Gulf Coast to rebuild the distribution and transmission systems in the aftermath of Hurricane Katrina
- 20,000 free weatherization kits to help our customers manage their winter bills in the face of record-high natural gas prices last winter.

We invest in initiatives that benefit the communities where we do business and which our employees call home. The reason is simple: We have a deeply held belief that our business success is inextricably linked to the success of the communities we serve.

As sustainability becomes an increasingly important part of our business strategy, our ability to continue to attract the most committed and talented employees is critical to our success. That is why Work Place Excellence continues to be one of our High Level Objectives at PNM Resources. Competitive salary and benefits, workforce diversity, safety in the workplace and operating our business in accordance with the highest ethical standards are critical to the long-term successes of the company.

Addressing climate change

We are an energy company that depends on fossil fuels to help provide our customers with reliable and affordable energy services. These fossil fuels help us keep our rates affordable, but challenge us to continuously reduce our emissions. And there is no greater environmental challenge for PNM Resources, indeed for our society, than greenhouse gas emissions and climate change. I find the scientific evidence of climate change sufficiently compelling. Prudent risk management would suggest that

we start addressing the issue sooner rather than later, so it can be managed at minimum cost. This is why we have concluded that the prudent course of action in the face of growing scientific evidence and public and political interest is to prepare for a future in which greenhouse gas emissions will be regulated.

We have begun taking deliberate steps in that direction. We have added cleaner technologies to our resource portfolio, including new natural gas and renewable energy plants, particularly wind. We have invested in natural gas energy efficiency programs and, beginning in 2006, we will look for opportunities to invest in and add demand-side resources to our supply portfolio. We are assessing the consequences of different federal climate change legislative proposals, and we are actively engaged in working collaboratively on potential approaches.

We also have established a greenhouse gas reduction goal and publicly reported our greenhouse gas emissions in each of the last two years. In 2005 we also took the first step to establish a formal corporate policy on climate change by devoting one of our board of directors' strategic planning sessions to a dialogue on climate change.

Our sustainability model will serve us well as we address climate change, but

we recognize these are only first steps. Much more will be necessary in the coming years.

New thinking

Looking at our business through the lens of sustainability allows us to see the impact of our policy on those who matter most to our success; employees, customers, communities and shareholders. This report features a number of our employees and the efforts they have taken to cultivate our company's sustainability commitments. These employees, and many others at PNM Resources, have embraced sustainability and made a personal commitment to building value for shareholders, protecting the quality of our environment, and contributing to the economic and social well-being of communities in which they live. Their actions will help ensure that future generations will enjoy the same quality of life we share today.

Jeff Sterba





ABOUT THE COMPANY

Governance

PNM Resources has built a valuable reputation for being a company with integrity.

Adherence to sound principles of corporate governance — through a system of checks, balances and personal accountability — is vital to protecting reputation, assets, investor confidence and customer loyalty. Our board of directors is made up of individuals with the professional experience and expertise to oversee as well as challenge management to ensure that they perform in the long-term best interests of our shareholders. Eight of nine board members are independent as defined by the New York Stock Exchange.

The board has organized the governance policies into a corporate governance document so that investors, employees, customers, regulators and the community may be aware of the policies followed by PNM Resources companies.

Because the board recognizes the ongoing debate with regard to corporate governance practices, it has charged its governance and public policy committee with reviewing our governing principles at least annually (or more often if necessary) and to recommend any necessary changes to the board.

PNM RESOURCES BOARD OF DIRECTORS COMMITTEES

The PNM Resources board committees review and make recommendations to the full board regarding key business principles and practices of PNM Resources and its subsidiaries.

Audit and Ethics Committee

- Comprises four independent directors
- Assesses the work of PNM Resources internal auditors, independent public accountants and the effectiveness of the business control structure
- Reviews financial statements of PNM Resources
- Oversees PNM Resources financial reporting
- Represents the board of directors in accounting and auditing-related activities of PNM Resources
- Makes recommendations to the board with respect to appointment of the independent public accountants
- Approves the scope of the annual audit
- Monitors and reviews the effectiveness of PNM Resources management of accounting functions. Has adopted a policy governing audit, audit-related and non-audit fees and services in compliance with the Sarbanes-Oxley Act

- Oversees the PNM Resources Ethics and Compliance Program.

Governance and Public Policy

- Comprises four independent directors
- Makes recommendations to the board for nominees for election as directors
- Makes recommendations concerning the effectiveness, structure, size, composition and compensation of the board, including committee assignments and candidates for election as chairman of the board
- Conducts annual evaluation of board performance and effectiveness
- Reviews conflict-of-interest questionnaires submitted by directors and officers to determine whether any potential or actual conflicts of interest exists
- Develops and reviews the corporate governance principles and the committee charter at least annually and recommends any appropriate changes to the board

- Reviews and monitors policies that address PNM Resources responsibility to the communities in which the holding company or its subsidiaries conduct business.

Finance Committee

- Comprises four independent directors
- Reviews and recommends to the board the capital structure and financial strategy for PNM Resources, including dividend policy. Oversees:
 - financial performance
 - investment procedures and policies
 - pension fund performance and funding level
 - capital expenditures
 - financial risk management strategies and policies.

Human Resources and Compensation Committee

- Comprises five independent directors
- Approves compensation policies and benefit programs and their relationship to the attainment of business goals
- Recommends to the board the compensation philosophy and guidelines for the entire executive and managerial group, with emphasis on rewarding long-term results and maximizing shareholder value
- Reviews PNM Resources diversity program
- Conducts annual performance evaluation of the chief executive officer and ensures management continuity through annual review and approval of a management development and succession program.

Corporate overview

FOOTPRINT

NEW MEXICO

PNM

- 478,000 gas customers
- 424,000 electric customers

TNMP

- 50,000 electric customers

SOUTHWEST

PNM wholesale

- 78 electric wholesale customers

TEXAS

TNMP

- 210,000 electric T&D customers

First Choice Power

- 210,000 electric customers*

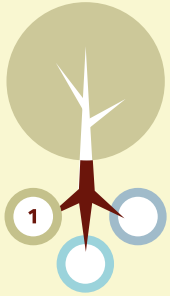
* The customers reported above for TNMP and First Choice Power include 150,787 customers of TNMP who have chosen First Choice Power as their retail electric provider.



ORGANIZATIONAL STRUCTURE

	PNM RESOURCES An energy holding company	PNM Regulated, integrated electric and gas utility, also sells electricity on the wholesale market	TEXAS-NEW MEXICO POWER COMPANY Regulated, integrated electric company in New Mexico and a transmission and distribution company in Texas; New Mexico operations to be transferred to PNM in 2007	FIRST CHOICE POWER Competitive retail electric provider and wholesale power marketer within ERCOT in Texas
Employees				
Corporate	751			
Electric		1,182	469	174
Gas		736		
Wholesale		70		
Total *	751	1,971	469	174

* As of December 31, 2005



Growing our environmental commitment

In 2003 our company's Board of Directors began to grow our company into an environmentally sustainable business when they took our long-standing commitment to environmental stewardship and reframed it into a living environmental sustainability policy. The fundamental premise in taking this step was that our company could grow and thrive while at the same time preserve the environment and use natural resources wisely.

1

ENVIRONMENT

We set measurable environmental goals with publicly announced, five-year targets to reduce fresh water use and lower specific air emissions per megawatt-hour, including carbon dioxide (CO₂) and other greenhouse gases, and total solid waste created by all our operations. And we have challenged ourselves to become a national utility leader in providing renewable energy to both retail and wholesale customers. We set these goals not because they were necessary to comply with laws or regulations, but because we believed it was the right strategy for PNM Resources – it made business sense.

In the coming years environmental sustainability will become an increasingly important part of our business strategy. This is why we developed a set of 10 environmen-



*Jeff Burks, Director,
Environmental Sustainability,
PNM Resources*

tal strategies in 2005 to support employee and business unit efforts to include environmental considerations into planning and business decisions. Our 10 strategies will enable each business unit and employee to identify how they can contribute to improving PNM Resources' environmental performance. In doing so they will enable PNM Resources to transform our

environmental sustainability policy and our company's High Level Objective — Environmental Sustainability — into action.

Recent utility industry surveys of customer attitudes indicate 82 percent of those surveyed believe air pollution is a serious environmental concern. When asked about global warming, 72 percent believe it is really happening and 69 percent consider it at least a "somewhat serious problem." Our own 2005 environmental opinion survey tells us that the five most important environmental issues in New Mexico are water scarcity and quality, global warming, air quality, wildlife protection and urban sprawl.

This is why sustainability matters to PNM Resources. We intend to continue in this line of business for many

years to come. If we want a utility business that continues to grow, we have to offer customers and our communities better choices; choices that enable people who want affordable energy and a clean environment the chance to have both.

In the pages that follow you can see our 2005 progress toward growing PNM Resources into an environmentally sustainable merchant utility. There is no better place to look to measure our progress than our employees. Each individual featured in this year's report is an example of how the "seed" our Board of Directors planted in 2003 has been cultivated and is taking root. Through their individual efforts our employees are not only demonstrating their personal commitment to Environmental Sustainability but are also making it a companywide reality at PNM.

We have just begun this journey and still have a long way to go, but I am pleased to report we are making progress. And each day brings us closer to achieving our Environmental Sustainability goals and objectives through corporate and employee actions that have resulted in:

- The introduction of biodiesel fuel in our fleet operations
- The development and approval of a suite of new natural gas energy efficiency programs for our customers
- The construction of a new information technology office building that incorporates green building design features and is a candidate to receive the Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council
- The development of an innovative customer-owned solar photovoltaic program in which PNM purchases renewable energy certificates from our customers who have installed interconnected solar PV systems, and
- Engagement of our senior management in the climate change policy debate on important state and national forums.

In addition, we have formalized and deepened the way we engage our customers and stakeholders. We have established stakeholder advisory groups to assist us in the design and

ENVIRONMENTAL COMMUNITY SURVEY							
Total (5 point scale)*		Communication responsiveness		Progress towards policy goals		Program effectiveness	
2004	2005	2004	2005	2004	2005	2004	2005
3.1	3.4	3.6	3.7	3.0	3.3	2.9	3.3

*Higher score indicates greater satisfaction.

deployment of new energy efficiency programs. We have sought the opinions of key environmental leaders from throughout New Mexico and the Southwest through an annual survey in which we have asked them to identify their top environmental issues and to rate our environmental performance. (The results of the 2004 and 2005 surveys are summarized here.) The survey helps us ensure that our efforts square with the needs and concerns of those most engaged in environmental issues, and to identify our strengths and weaknesses as our Environmental Sustainability initiative matures. This input has kept us mindful of the true value of partnership – shared

expertise. Through collaboration PNM will be more effective in protecting the environment.

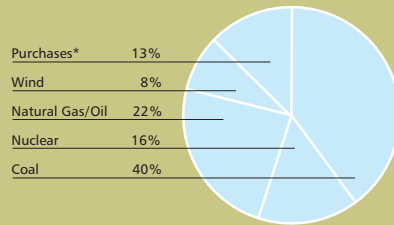
These are just some examples of our approach to protecting the environment and our quest to be an environmentally sustainable business. But we are still learning. Each day we develop a deeper understanding of what Environmental Sustainability means for PNM Resources and how, working with our stakeholders, employees and communities, we can be more effective in achieving meaningful environmental results.

A diversified generating portfolio

PNM Resources and its utility subsidiary PNM have a diversified generating portfolio that includes wind, natural gas, nuclear and coal resources. In 2005 we owned all or portions of the following power plants, from which our per megawatt-hour (MWh) emissions and freshwater calculations are derived:

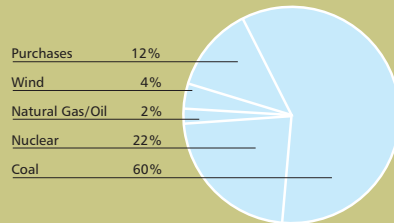
2005 Capacity: 2,065 MW

(Peak output generating sources are capable of producing)



2005 Energy: 11,951,909 MWh

(Actual energy produced by generating sources)



NOTE: Percentages have been rounded to the nearest whole number.
* Includes firm purchases only.

Coal

PNM San Juan Generating Station

- Total capacity: 1,800 megawatts (MW)
- PNM share: 765 MW
- Operator: PNM

Four Corners Power Plant

- Total capacity: 2,040 MW
- PNM share: 192 MW
- Operator: Arizona Public Service

Nuclear

Palo Verde Nuclear Generating Station

- Total capacity: 3,810 MW
- PNM share: 387 MW
- Operator: Arizona Public Service

Wind

New Mexico Wind Energy Center

- Total capacity: 200 MW
- PNM share: PNM purchases all energy generated
- Operator: FPL

Natural Gas/Oil

Afton Generating Station (natural gas)

- Total capacity: 141 MW
- PNM share: 141 MW
- Operator: PNM

Delta-Person Generating Station (natural gas)

- Total capacity: 132 MW
- PNM share: PNM purchases all energy generated
- Operator: Delta Power

Note: In 2006 PNM Resources acquired the 305 MW Twin Oaks Power facility, a coal-fired, fluidized bed power plant located 150 miles south of Dallas. Generating statistics for Twin Oaks will be included in the 2006 sustainability report.

* PNM did not run the Las Vegas Generating Station in 2005 and is currently seeking approval from the New Mexico Public Regulation Commission to decommission this facility.

Investing in the environment

San Juan Generating Station Improvements



Lordsburg Generating Station (natural gas)

- Total capacity: 76 MW
- PNM share: 76 MW
- Operator: PNM

Reeves Generating Station (natural gas)

- Total capacity: 154 MW
- PNM share: 154 MW
- Operator: PNM

Las Vegas Generating Station* (diesel/oil)

- Total capacity: 18 MW
- PNM share: 18 MW
- Operator: PNM

In addition to these resources, we also purchased electricity on the wholesale market. These purchases are not included in to our environmental goal calculations.

In March 2005 PNM Resources announced its plan to invest more than \$200 million to upgrade environmental systems at the coal-fired PNM San Juan Generating Station (SJGS). Among the improvements will be new mercury-control technology that will make SJGS one of the first coal plants in the nation to voluntarily reduce mercury emissions.

Subsidiary company PNM is the operator and majority owner of SJGS.

SJGS is the heart of the PNM Resources' generating fleet, providing PNM customers with about 55 percent of the electricity they use. It is the primary source of base-load generation for PNM and a major contributor to keeping electric rates affordable.

Construction on the original four-unit, 1,800 megawatt generating station was completed in 1982. In 1997 PNM invested \$73 million to replace the first sulfur dioxide (SO₂) pollution-control system with a limestone-forced oxidation scrubber system. This investment resulted in a more than 60 percent reduction in SO₂ emissions.

Construction is scheduled to begin anew in 2006 as PNM begins to make the environmental upgrades agreed to by a settlement agreement between the plant owners, the Grand Canyon Trust, the Sierra Club and the New Mexico Environment Department.

UPGRADES INCLUDE:

- Mercury control technology on all four units. Mercury emissions could be reduced by 75 percent
- New advanced low-nitrogen oxide burners and overfire air on all four units to reduce nitrogen oxides emissions rate by 35 percent from current permitted level
- Baghouse control technology on all four units to reduce particulate emissions by 70 percent from current permitted level
- Additional SO₂ reductions by increased scrubbing. Anticipated 65 percent reduction from current permitted level.



Reducing air emissions

GOAL: Compared with 2002, we will emit 15 percent less nitrogen oxides per megawatt-hour (MWh), 15 percent less sulfur dioxide per MWh and 7.5 percent fewer particulates per MWh. Compared with 2003, we will emit seven percent less carbon dioxide, or its equivalents, per MWh.

Cleaner air

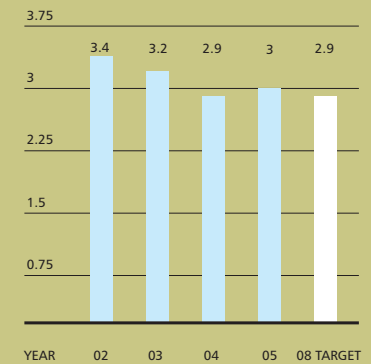
In 2005 PNM Resources made moderate progress in achieving its five-year goal to reduce per megawatt-hour (MWh) air emissions.

Thanks mainly to increased sulfur dioxide (SO₂) removal at Four Corners Power Plant and continued performance at San Juan Generating Station, our SO₂ emissions further reduced in 2005.

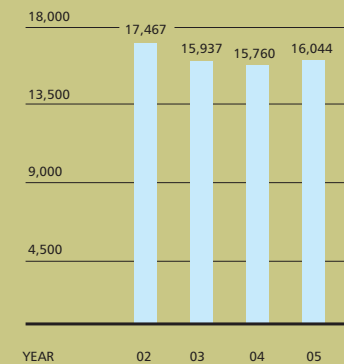
However, per MWh emissions of carbon dioxide (CO₂) and nitrogen oxides (NO_x) both increased in 2005. We attribute these increases primarily to outages

at Palo Verde Nuclear Generating Station, which resulted in 225,000 fewer MWh of zero-emitting generation being factored into our portfolio than in 2004. The Palo Verde outages negatively affected our intensity calculations for all of the emissions we track.

NO_x Pounds per MWh

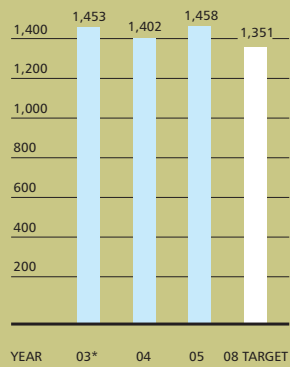


NO_x Total Tons

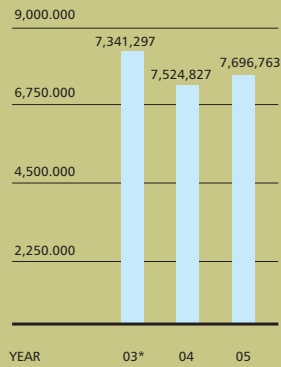




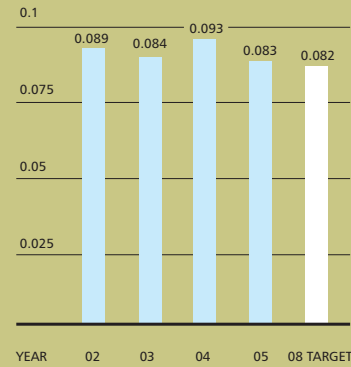
CO₂ Pounds per MWh



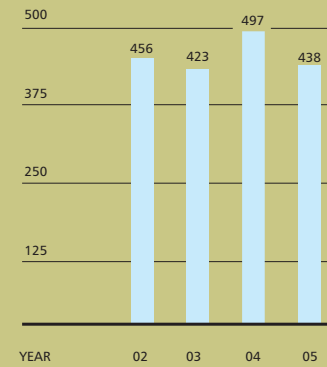
CO₂ Total Tons



Particulates Pounds per MWh



Particulates Total Tons

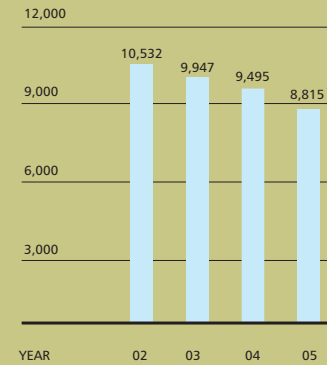


* PNM Resources made EPA-approved changes in its CO₂ calculation methodology in 2003. As a result, reduction of this emissions from the 2002 baseline appears more significant than actual reduction. For this reason, PNM Resources has changed the baseline year for its CO₂ goal from 2002 to 2003.

SO₂ Pounds per MWh



SO₂ Total Tons



Conserving freshwater

GOAL: Our current generation portfolio will use 20 percent less freshwater per megawatt-hour (MWh) than it did in 2002. When new generating plants are added to PNM Resources and subsidiary company portfolios, either the new plant's per MWh average freshwater usage will be at least 20 percent lower than the 2002 portfolio average, or freshwater usage elsewhere in the generation portfolio will be reduced to provide an offset and achieve the same portfolio-wide per MWh freshwater usage reduction.

Making every drop count

Reducing our use of freshwater is a critical goal due to the scarcity of this resource in the Southwest and the essential role water plays in generating electricity. With the driest winter in New Mexico's recorded history, 2005 underscored the importance of conserving this vital resource.

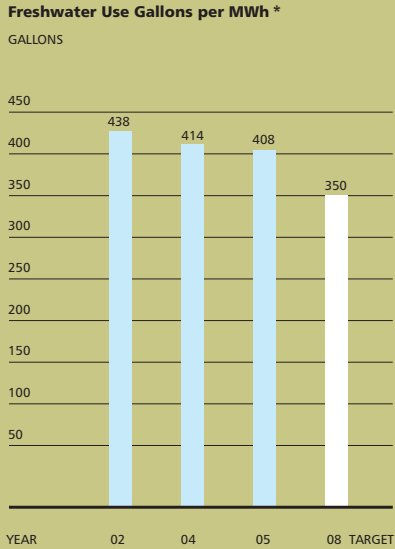
Progress toward reducing per megawatt-hour (MWh) freshwater consumption continued in 2005, with credit for the ongoing reduction attributable primarily to wind energy.

Subsidiary utility PNM has a 20-year agreement to purchase all of the electricity generated by the 200-megawatt (MW) New Mexico Wind Energy Center in eastern New Mexico.

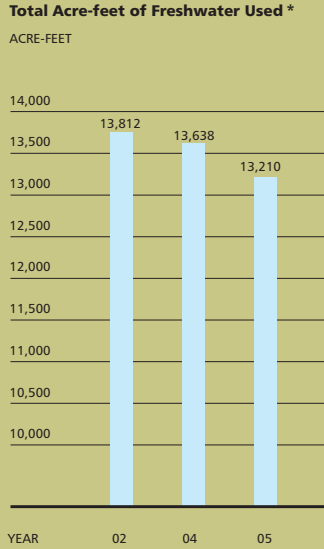
The purchase of wind energy brings significant amounts of electricity into our generating portfolio. In 2005 wind energy contributed more than 513,000 MWh without using a drop of water for energy production.

We expect progress toward our freshwater use goal to continue in 2006 as two state-of-the-art power plants come online.

(continued on page 16)



* Based on generation owned by PNM Resources and its subsidiaries





Reducing our use of freshwater is a critical goal due to the scarcity of this resource in the Southwest.



Joy Carlson, Facility Manager, PNM Power Operations

Joy's persistence in identifying and fixing a leak helped PNM Resources save 466,000 gallons of water in 2005.

(continued from page 13)

The Luna Energy Facility near Deming, N.M., of which PNM owns a one-third share, began operations in 2006. The natural gas-fired plant features combined-cycle technology that allows less water to be used per MWh. In addition, the new plant will rely on recycled wastewater from the city of Deming for one-third of its water supply.

PNM is also expanding an existing plant in southern New Mexico to better serve growing demand. The natural gas-fired Afton Generating Station will increase from 141 MW to 235 MW of capacity, and will feature an advanced hybrid cooling system that will reduce the plant's annual use of fresh water by 60 percent from a traditional, more water-intensive cooling system.

◀ **MAKING WATER CONSERVATION HER BUSINESS**

To Joy Carlson, facility manager, PNM Power Operations, a healthy field of water-loving cattails in an abandoned drainage ditch in the New Mexico desert is a glaring sign of a problem.

Joy was certain that a leak coming from the building where she works was the reason they were thriving. So Joy began an odyssey to find the source of the water waste and stop it. "I felt even more responsibility to find this leak as a part of my commitment to environmental sustainability," Joy said.

"That leak was driving me crazy," Joy confessed. After numerous investigations on her own, Joy enlisted the help of a plumber and finally determined which pipe was leaking by using a remote camera. A valve was mistakenly left open after a humidifier was removed from an air conditioning unit more than two years before, allowing water to flow at a slow but steady trickle into an under-the-floor drain.

The solution was a simple matter of closing the valve. The result was significant, saving about 466,000 gallons of water in 2005.



"I felt even more responsibility to find this leak as part of my commitment to environmental sustainability."

– Joy Carlson



Subsidiary company PNM recycles a portion of the wood electric cable reels it accumulates in the course of maintaining its transmission and distribution system. An effort is underway to better track waste streams and identify opportunities to increase recycling.

Managing waste

GOAL: We will define waste streams generated by our company and implement plans to reduce waste by 15 percent.

Getting a handle on waste

What gets measured gets managed. This is the axiom that has driven much of our success toward achieving our environmental goals established in 2004. Air emissions are reduced, freshwater use is reduced, and clear progress toward becoming a national leader in renewable energy has been made. These are goals for which our baselines have been clear.

More elusive has been our goal of reducing waste streams by 15 percent. Certainly there is good progress to report, with subsidiary PNM now recycling office paper and aluminum cans at nearly every facility throughout New Mexico.

But for a company with more than 40 locations and six different types of operations, quantifying our waste streams has posed a challenge.

In 2005 we retained the services of a waste management consultant to help us better determine what we throw away, in what quantities, and how we might better manage our waste. Development of a companywide waste management system and standards is still in progress, but the study has brought us a much better understanding of what specific waste materials we recycle, volumes of waste materials we generate and how our waste streams are disposed of at different facilities throughout our company. The report will also make recommendations on how we can improve processes at all locations to collect data on our wastes and track how they are disposed.

The project also led to the development of a model that will enable us to estimate waste streams at our facilities within newly acquired subsidiaries First Choice Power and Texas-New Mexico Power as well as PNM facilities.

The model looks at facility type — power plant, transmission and distribution service center, and administrative office — and calculates estimated disposed waste per employee at these facility types based on employee population and actual waste inventories conducted at similar facilities within the company. Such a tool is vital to achieving our goal and ensuring that, as the company grows, our sustainability effort grows in step.

Recycling in 2005

Office Paper	122 tons
Scrap Metal	749 tons
Cardboard	25 tons
SJGS Coal Ash	231,272 tons

Items Recycled / Reused (quantities unknown)

Wood cable reels
Wood utility poles
Wood pallets
Computer monitors
NiCad batteries
Other batteries
Aluminum cans

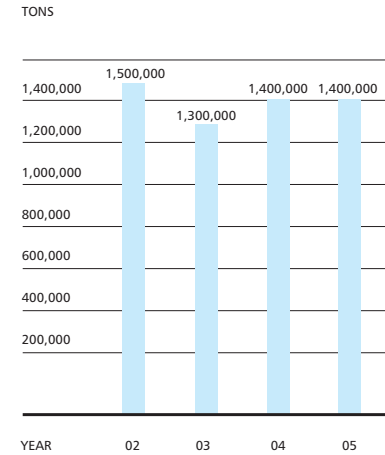
Several significant challenges to increasing recycling emerged during the study, most of which relate to the vast geographic territory where the more than 40 PNM facilities are located and the smaller populations of many of the communities we serve.

But like many challenges, these may also be opportunities. We will seek ways to partner with other businesses and organizations interested in recycling in order to help build the economies of scale needed in more remote communities.

Some of these challenges include:

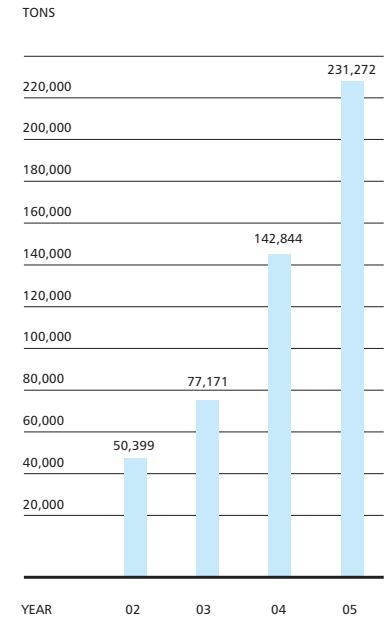
- Lack of readily available recycling centers and markets for materials
- Long transport distances to markets that do exist
- Lack of equipment to consolidate and store materials
- Small quantities of materials generated at many PNM locations that make it logistically difficult to recycle waste materials other than paper.

San Juan Generating Station Total Coal Ash Produced



Numbers rounded to nearest 100,000

San Juan Generating Station Total Coal Ash Recycled





Giving customers cleaner energy choices

PNM Resources subsidiary PNM continued to expand customer participation in clean energy in 2005, recording strong growth of its wind energy program and creating new solar and energy efficiency programs.

The power of wind

PNM Sky Blue™, our wind energy program, closed its second full year on a positive note, reflecting increasing customer interest in wind energy.

The program offers electric customers the option of having up to 90 percent of their electricity derived from wind energy for a nominal increase over regular PNM electric rates. The wind energy rate is 1.8 cents per kilowatt-hour (kWh) more than our regular electric rate.

As of Dec. 31, 2005 the total number of PNM Sky Blue™ customers stood at 8,510, up from 6,950 the year before. PNM Sky Blue™ is one of the most successful green energy programs in the nation, with a large number of participants opting to subscribe in the

program at the maximum 90 percent level. According to the National Renewable Energy Laboratory, PNM Sky Blue™ ranks 15th in terms of number of participants and 16th in terms of energy sales to retail customers, out of more than 100 programs reporting nationally.

Customers can choose their level of participation in PNM Sky Blue™:

- Residential customers may purchase in 100 kilowatt-hour (kWh) blocks or 90 percent of their use
- Commercial customers may select from one percent, two percent, three percent, five percent, 10 percent, 50 percent or 90 percent of their usage.

PNM SKY BLUE™ BY THE NUMBERS

(As of Dec. 31, 2005)

Total residential customers	8,129
Total residential sales	29,360,961 kWh
Total non-residential customers	381
Total non-residential sales	15,966,996 kWh
Total PNM Sky Blue™ customers	8,510
TOTAL SALES	45,327,957 kWh

Wind power for PNM Sky Blue™ comes from a 200-megawatt (MW) wind facility in eastern New Mexico, from which we purchase all of the wind energy generated. We have a 25-year, sole purchase power agreement with the wind facility.

Saving energy, saving money

Working with key stakeholders, including the New Mexico Coalition for Clean and Affordable Energy, we developed a program designed to encourage the efficient use of natural gas by our customers.

Approved by the N.M. Public Regulation Commission in late December, the PNM Energy Efficiency Program offers rebates for the purchase of selected energy efficiency measures. We were the first utility to offer an energy efficiency program in response to the Efficient Use of Energy Act, passed by the New Mexico Legislature

in early 2005. We participated in Gov. Bill Richardson's task force to help develop the legislation. Two types of rebates are available through the program:

Retail rebates, with rebate forms available at participating retailers or at PNM.com, including:

- \$10 back for the purchase of a water heater insulation blanket
- \$25 back for the purchase of an ENERGY STAR®-qualified programmable thermostat.

Contractor rebates, for products installed by a participating contractor listed at PNM.com, including:

- 25 percent back (for as much as \$500) on participating contractor-installed insulation and weatherization measures, including attic insulation, wall insulation and ductwork leakage testing and sealing
- Contractor-installed efficiency products, including ENERGY

STAR® qualified programmable thermostats (\$40), hot-water heater insulation blankets (\$15), hot-water pipe insulation (\$5 for as much as 10 feet), and low-flow showerheads (\$8).

The program is funded through a surcharge on PNM residential customer bills at a rate of 3/4 of a cent per therm of natural gas consumed. Customers pay an average of 44 cents on their monthly bill for this program. We estimate the rebate program will help our customers save 404,000 therms of natural gas per year, and over the lives of the products help participating customers save a combined \$4.8 million on their energy bills.

The PNM Energy Efficiency Program launched Jan. 31, 2006. We expect the participation in the program to increase significantly when the 2006-2007 winter heating season begins.



The PNM Sky Blue™ wind energy program is ranked 15th in the nation in terms of number of participants and 16th in terms of energy sales, according to the National Renewable Energy Laboratory.



Planting the seed for more solar energy

In December, subsidiary PNM gained approval for an innovative new program to help reduce the cost for customers interested in installing solar photovoltaic (PV) systems on their homes and business.

The PNM Solar PV program takes a unique approach to encouraging solar installation by entering into a business relationship with participating customers. As customer-owned solar PV systems generate electricity, we purchase Renewable Energy Certificates (RECs) at a rate of 13 cents for every kilowatt-hour (kWh). In turn, we are able to count the RECs purchased through the program toward the state renewable portfolio standard.

Participating customers are required to be interconnected with the grid. As they produce solar energy, the demand for fossil-fuel generation elsewhere on the PNM system is offset.

The interconnection allows their meters to spin backwards when they produce more energy than they consume, allowing them to reap the additional value of saving 7.5 cents on their electric bill every time their system produces a kWh.

The program is for systems rated 10 kW and smaller. Launched March 1, 2006, the program will run for 12 years. We anticipate signing up about 45 new customers each year. By year 12 of the program, we project that the program will have brought the same environmental benefit as a 1.2 MW solar generating facility at a fraction of the cost: The program cost is \$2.8 million; a 1.2 MW facility would cost about \$7.8 million.

Combined with existing state and federal tax credits for solar PV installation, the PNM program makes solar PV more affordable for a larger number of customers who wish to invest in clean energy.

Harvesting the power of the sun

PNM Resources utility subsidiary PNM had planned to complete construction of its 25 kilowatt (kW) solar photovoltaic (PV) facility in 2005, but due in part to difficulties in obtaining equipment, the project was deferred to 2006.

The solar PV facility was part of PNM's 2005 Renewable Energy Procurement plan filed with the New Mexico Public Regulation Commission.

We completed construction in May 2006.

The solar facility is located at the company's Algodones power plant, a retired oil- and natural gas-fired generating station. The facility is on Interstate 25 about halfway between Albuquerque and Santa Fe, in plain view of one of the most heavily traveled stretches of highway in the state.

The Algodones facility is interconnected with the PNM distribution system, providing an estimated 41,000 kWh a year.

The 25 kilowatt solar photovoltaic system in Algodones, N.M. is clearly visible to motorists on the heavily traveled Interstate 25, between Albuquerque and Santa Fe. The PNM facility is intended to increase public awareness of solar photovoltaic technology.





Green power for the wholesale market

As the need for utilities to provide more renewable energy to customers grows, a new energy product has emerged in Renewable Energy Certificates (RECs).

RECs are created when renewable energy is produced, representing the environmental attribute of the energy. Regardless of where electrons from a wind farm or solar facility end up being used, the environmental benefit has a more global application. The offset of fossil generation has a value distinct from the energy itself. This value is captured through RECs.

Utilities may purchase RECs for credit toward satisfying renewable portfolio standards (RPS) where they operate.

Utility subsidiary PNM purchases all of the energy generated by a 200 MW wind facility in eastern New Mexico; 513,019 megawatt-hours

in 2005. One quarter of the RECs associated with the wind energy are allocated for wholesale trading, with the rest dedicated to complying with New Mexico's RPS.

PNM sold more than 65,000 RECs in 2005, which resulted in additional revenues of \$760,900.

We have several long-term contracts with various customers, including 3 Phases Energy Services, El Paso Electric, Salt River Project and Los Alamos County.

We expect this part of our business to grow stronger as more states implement RPS regulations or enhance existing standards, increasing the demand for RECs. In addition, below-average winds have yielded about 2 percent to 5 percent less wind energy than expected in the initial years of the wind facility's operations. As wind conditions return to normal we look forward to additional REC production.

RECS FOR SALE ►

If you're in the market for RECs, Tom Kelly is the person to call.

In addition to assisting in the development of generation projects like a 200-megawatt wind energy center in eastern New Mexico, structuring long-term power marketing contracts and marketing sulfur dioxide emissions credits, Tom is also the company's authorized REC trader.

"It gives us a whole new product line, and one we feel very good about providing," said Tom. "It's rewarding to me to be personally involved in the marketing of this renewable energy product."

Tom also gets his share of wind on the slopes of Santa Fe, where he teaches adaptive skiing to people with physical disabilities.



Tom Kelly, PNM Wholesale Marketing, enjoys a New Mexico spring breeze. Tom is the authorized Renewable Energy Certificate trader for subsidiary PNM.



Vince Cimino, PNM Plant Construction Supervisor, tours the stunning New Mexico byways on his Harley Davidson motorcycle. Vince and his team helped save a family of great horned owls during construction of a new power plant in southern New Mexico.

Bird protection plan takes flight

PNM Resources utility subsidiary PNM implemented a plan in 2005 that makes bird protection a requirement in new construction of electric distribution systems and commits the company to improving systems that are known to endanger birds.



The avian protection plan overhauls the company's design standards for new construction of electric transmission and distribution facilities, adding features to protect birds, especially eagles and other large birds of prey, from electrocution. When building in biologically sensitive areas, our construction crews will install special equipment to reduce the risk to birds. Preliminary estimates suggest that about 20 percent of new construction will be built to eagle safe standards.

In addition, the new plan authorizes project planners to incur additional expense to fix existing utility poles known to have electrocuted birds in the past. And when rebuilding existing power line systems in sensitive areas, the plan commits us to making those systems safer for birds.

By widening the spacing between power lines, adding insulating material to electrical equipment attached to poles and considering biologically sensitive areas when siting power lines, we believe we can significantly reduce bird electrocutions on its system.

While bird safety features can add five percent to 10 percent to construction costs, the measures resulting from the avian protection plan will improve system reliability and reduce future maintenance costs in addition to protecting wildlife.

The plan also provides training for field workers to identify the species of birds that have been electrocuted and report them to the PNM Environmental Services department. This procedure will help us track what impact our electric distribution is having on birds, and where to focus resources to make improvements.

◀ PROVIDING A SAFE HOME

Workers at the newly constructed Luna Energy Facility, a power plant near Deming owned in part by subsidiary PNM, learned a lesson in being good landlords last year when a pair of great horned owls took up residence on one of the plant's platforms.

Led by construction supervisor Vince Cimino, employees found the owls' nest — and four eggs inside of it — during routine construction activities in March. They quickly consulted with PNM Environmental Services and nonprofit partner Hawks Aloft on how to protect the birds and their eggs.

(continued on page 27)

(continued from page 26)

Employees monitored the nest daily for nestlings, shifting construction activity away from the area to avoid disturbing the nest to increase the birds' chance of nest success.

After hatching in April, the young owls were moved to a rehabilitation facility in Albuquerque, where a foster owl taught them to fly and hunt. In midsummer, the siblings were released into the wild near Silver City, N.M., not far from Deming.

"The owls became the plant's unofficial mascot during their stay here and unified our team," said Vince. "Their survival is a testament to our environmental commitment and our great working relationship with groups like Hawks Aloft."



Reducing greenhouse gas emissions from natural gas system



As the owner and operator of numerous fossil fuel-burning power plants, PNM Resources is concerned with the issue of global climate change and carbon emissions.

However, we also realize that while the large majority of its greenhouse gas emissions come from the generation side of our business, they are not limited to generation.

As New Mexico's primary supplier of natural gas, we own and operate more than 13,783 miles of transmission and distribution pipeline, which in 2005 carried approximately 85 billion cubic feet of natural gas, which is a greenhouse gas. As is the case industrywide, a small percentage of the gas we purchased in 2005 — 1.4 percent — cannot be accounted for due to losses along the system such as leaks and

scheduled releases for maintenance. We have a role to play through the operation of that system in reducing greenhouse gas emissions.

We began a concerted effort in 2005 to reduce methane losses by joining the U.S. Environmental Protection Agency's voluntary Natural Gas Star Program, which seeks to identify and promote the implementation of cost-effective technologies and practices to reduce emissions of natural gas.

While we devoted most of our effort for the Natural Gas Star program toward quantifying preventable losses of natural gas, we also took initial steps toward reducing these losses. We identified five relief valves at various compressor stations that had manufacturer's defects and replaced them. While the defects did not inhibit the ability to maintain

appropriate pressure, they did vent more gas to the atmosphere than was necessary.

We met our goal of reducing unaccounted-for gas losses by 300,000 cubic feet.

We plan to implement further loss-reduction strategies in 2006, including using an ultrasonic meter at key compressor stations to monitor compressor sealing systems.

Subsidiary PNM met its goal of reducing unaccounted-for natural gas losses by 300,000 cubic feet.



Steve Willard, product development manager, led the team that developed the SF₆ detection device.

Innovation

Energy technology subsidiary Avistar is developing a device that could help utilities around the world detect leaks of the most potent greenhouse gas known.

The utility industry has been using sulfur hexafluoride (SF₆) to prevent electrical arcing in transmission system circuit breakers since the 1960s. Older equipment can contain as much as 2,000 pounds of SF₆, while newer equipment uses much smaller quantities, less than 100 pounds in some cases.

SF₆ is used in electric transmission systems around the world. According to the U.S. Environmental Protection Agency: "SF₆ is the most highly potent greenhouse gas known to date. Over a 100-year period, SF₆ is 23,900 times more effective at trapping infrared radiation than an equivalent amount of carbon dioxide (CO₂). SF₆ is also a very stable chemical, with an atmospheric lifetime of 3,200 years."

Avistar made significant strides in 2005 toward developing a tool to help electric utilities detect and manage leaks of SF₆ gas

from substation circuit breakers and switches.

Researchers developed an algorithm to accurately estimate the number of SF₆ molecules present in a circuit breaker based on pressure readings, air temperature and the surface temperature of the tanks containing the gas. We have submitted a patent application for the algorithm.

The algorithm helps pinpoint leak rates and predict trends that manual readings of pressure cannot, because pressure can change due to temperature fluctuations rather than actual leaks.

Our developers have adapted existing wireless mesh technology that allows onsite calculations of SF₆ quantities to be instantly relayed to a secure Internet site, which will allow system operators to monitor SF₆ levels close to real-time.

A prototype unit is currently being tested at a PNM substation.

The advantages of the technology could be significant. With nearly real-time, accurate data, supervisors will be able to schedule equipment maintenance more effectively, which will both reduce maintenance costs and help avoid equipment failures.

The goal is to create a marketable wireless SF₆ online monitor and communications system that utilities can use to retrofit their systems. With a target per-unit price of \$500 or less, we expect the device to be significantly less expensive than other SF₆ detection devices on the market and considerably more versatile due to its wireless platform.

2005 PNM SF ₆ INVENTORY	
Total SF₆ in PNM system	51,163 lbs.
Total gas leaked	2,558 lbs.
Systemwide leak rate	5.6 %

Taking stock

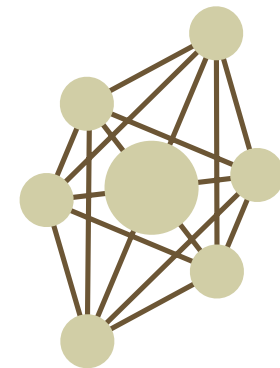
The first step in solving a problem is to understand it fully. In 2005, utility subsidiary PNM took that step with regard to SF₆.

We performed a rigorous survey of all the substation equipment in the utility's electric system that uses SF₆, and entered findings in a database to allow the utility to keep an accurate inventory of the gas. Now we are able to better track SF₆ and identify possible losses of the gas through our electric transmission operations.

The SF₆ inventory yielded encouraging results in 2005 that the leak rate was relatively low – 5.6 percent systemwide. We will determine a reduction goal based on the 2005 findings.

In addition to the environmental value of better understanding SF₆ leaks, we expect to derive operational value by identifying specific pieces of equipment where leak rates are particularly high, and fixing them before they fail. This will improve reliability, which in turn will help us avoid revenue loss and increase customer loyalty.

An SF₆ survey is planned for subsidiary utility Texas-New Mexico Power in 2006, using the PNM inventory as a model.



Sulfur hexafluoride (SF₆) is an extremely stable gas that prevents electrical arcing in transmission system circuit breakers. It is a critical material for providing safe and reliable electricity.



Green by design

“We will make environmental protection and stewardship integral to facility design, construction, operation and maintenance...”

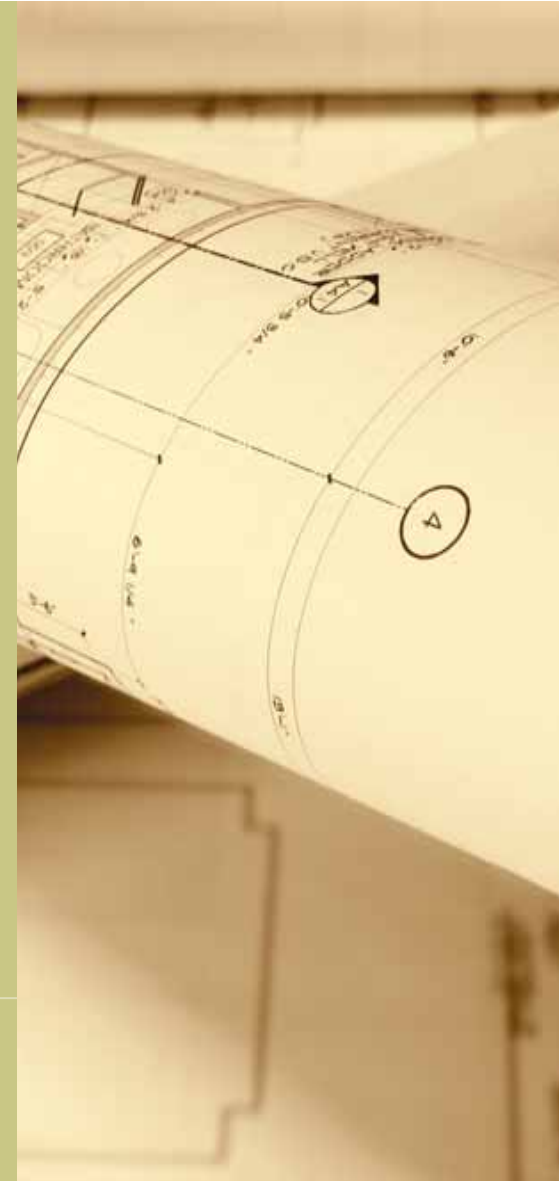
From PNM Resources Environmental Sustainability Policy. Visit PNMResources.com for full policy.

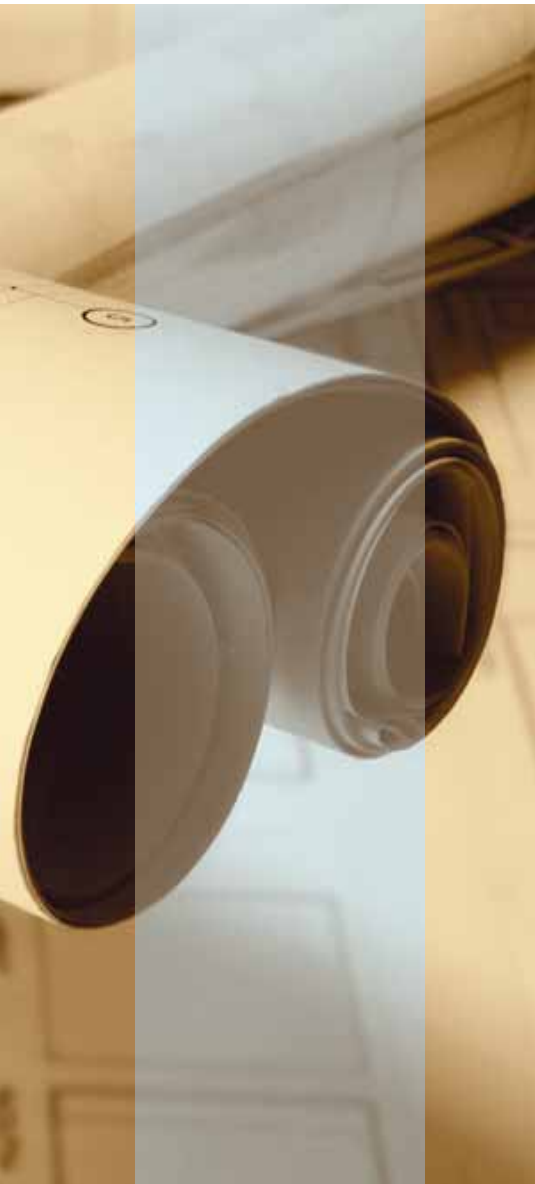
The newest PNM Resources building was built to Leadership in Energy and Environmental Design (LEED) standards. It is the first full-scale construction project the company has begun since instituting its environmental sustainability policy in 2004.

The 32,000 square-foot building and the 50 employees who work in it provide information technology support services to the entire company.

We have submitted the project to the U.S. Green Building Council to be considered for LEED certification. At the time construction began in June 2005, there was only one other LEED-certified building in New Mexico.

Building to LEED standards increased the upfront capital cost of the project by about 2 percent to 3.5 percent. However, we expect to more than recoup that cost over the life of the building through savings on energy and water, as well as increased employee productivity.





GREEN DESIGN FEATURES

Recycling

At least 10 percent of building materials were from recycled materials including: steel, concrete block and carpet.

Recyclable construction waste was sorted on site and recycled including: metals, concrete block, asphalt and cardboard.

Water efficiency

Landscaping uses 50 percent less potable water than conventional design.

Inside water use nearly 60 percent less than conventional design through:

- 0.5 gallons/minute lavatory faucets — lowest flow available
- waterless urinals.

Energy efficiency

The building will use 30 percent less energy than conventional design through:

- daylighting in 78 percent of occupied office space
- high-efficiency heating, ventilation and cooling systems
- high-efficiency lighting systems
- well-insulated building envelope.

Atmosphere protection

- Ozone depletion minimized through equipment using no chlorofluorocarbons (CFCs) or Hydro chlorofluorocarbons (HCFCs)
- At least 20 percent of materials manufactured locally (within 500 miles of Albuquerque), supporting local economies while reducing emissions associated with transportation.

Working conditions

- Indoor air quality protected by using non-toxic building materials including: carpets, adhesives and sealants.

Employees can customize their work environment with:

- adjustable fresh air registers
- individual lighting controls.



Steve Balok, PNM Resources Building Maintenance Supervisor, tends to his herd of elk on his central New Mexico farm. Steve managed the construction of the green-designed PNM Resources information technology office building.

"It's important that people take care of the resources that they have been entrusted with."

- Steve Balok, Project Manager of the green building project, PNM Resources

◀ FARMING HIS LAND

Overseeing a green building project was right up Steve Balok's alley.

As building maintenance supervisor at PNM Resources, Steve has been managing construction projects and overseeing building maintenance for years. And while the new information technology office building is the first on his resume to be a candidate for Leadership in Energy and Environmental Design certification from the U.S. Green Building Council, Steve's connection with the environment is nothing new.

Steve owns the farm he grew up on in central New Mexico. In a region where fertile river valley acreage is highly prized for residential development, Steve is constantly making improvements to keep his farm viable. In the early 1980s he was one of the first to apply laser leveling techniques to his fields, cutting the amount of water needed to irrigate by 75 percent.

More recently, Steve entered the elk business. He and his brother are partners in breeding and raising elk in order to harvest their velvet antlers each year. "It's a renewable resource that is packed full of glucosamine and chondroitins," explained Steve. The compounds have been shown in studies to relieve pain and slow cartilage damage in people with mild to moderate osteoarthritis. It is a product that is in demand as a dietary supplement.

Finding a market niche such as elk velvet promises to be a way for Steve to make farming viable, which is a driving ambition of his. Steve strongly believes fertile valley land such as his should be preserved for agriculture, which he believes is its highest and best use. And while Steve could make a small fortune if he sold his 20 acres of prime land, he is very unlikely to do so.

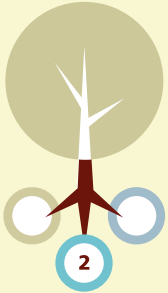
"I don't have any desire to sell it and take the money. I think of an old Native American saying I once heard: Money's like juniper smoke – it smells nice and then it's gone," he said. "That's my very personal statement; I'm going to farm this land, and I hope my kids will too."

While he hopes elk farming can provide the revenue necessary to sustain his farm, Steve's desire for success doesn't stop at his fence. Ultimately he hopes elk farming can be a solution for other farmers as well and allow more land to continue being used for agriculture.

Whether it's playing a role in making a green building a physical reality, or innovating new farm products to preserve a way of life, Steve is an environmentalist in practice. "My personal philosophy is that we're just visiting here," said Steve. "It's important that people take care of the resources that they've been entrusted with."



The PNM Resources information technology office building, compared to a typical modern commercial building, incorporates numerous design features that protect the environment and provide first-rate working conditions.



A trusted community partner

PNM Resources has long recognized the importance of being a trusted community partner. Our employees are the heart of our community strategy.

2 SOCIETY

Employee engagement encompasses organizing volunteer projects, serving on non-profit boards of directors, giving to charitable causes and reviewing teacher grant applications.

Our community giving grew in 2005. We reinvested nearly \$5,540,000 in shareholder-funded contributions to support community programs and projects in our service territory. Adding companies, customers and employees in New Mexico and Texas, we added \$2.5 million to the non-profit PNM Resources Foundation which reinvested nearly \$630,000 in non-profit organizations and programs in 2005. We also began the rollout of our volunteer and grant programs to our Texas offices.

And our community stretched beyond state borders and crossed the world last year. After we saw the horrible effects of the tsunami that hit Indonesia, our employees turned to us to ask how their company could help. Our customers looked to us, too.

In response, we established a fund to match employee and customer donations to the American Red Cross to support tsunami relief efforts. In early 2005 we surpassed our goal, raising more than \$125,000.

They looked to us again after Hurricanes Katrina and Wilma struck closer to home. More than 2,000 customers and employees wrote checks and helped us raise more than \$500,000 for the American Red Cross.

Remarkably, one month after the hurricane relief, our employees turned around and contributed to United Way and helped us raise a combined total of nearly \$1,030,000 for United Way organizations in our Texas and New Mexico service territories.

Time after time our employees as well as our customers have responded to the call for help, and we have been proud to support them as they seek to provide that help. We believe that by partnering with our employees to help others in need we build our standing as an employer of choice.

PNM Resources Foundation

In 1983 PNM shareholders created the PNM Foundation — now the PNM Resources Foundation — as a separate, non-profit corporation. The foundation provides funding to various nonprofit organizations that provide community support.

MAJOR SUPPORT

Each year PNM Resources invests significant corporate dollars into the communities we serve. In 2005 we reinvested more than \$5.5 million in shareholder-funded contributions to hundreds of community projects. Here is a sampling of some of the projects we support:

Rio Grande Zoo Biovan

Teaches elementary school students about ecosystems of the Rio Grande from Colorado to the Gulf of Mexico, promoting conservation and stewardship.
\$60,000 during three years

Albuquerque TriCentennial Education Project

Supplies supplemental curriculum and materials to Albuquerque-area schools focusing on the three-century history of the city.
\$100,000 during two years

WESST Corp –

PNM Entrepreneurial Awards

Supports innovation and economic vitality throughout New Mexico.
\$105,000 during three years

New Mexico First:

NM Community Network

Provides statewide community education on issues affecting New Mexico.
\$60,000 during two years

New Mexico Symphony Orchestra: Barelvas Outreach Program

Supports art in the elementary schools in the Barelvas neighborhood, Albuquerque's oldest community.
\$75,000 during three years

National Atomic Museum: Power Up Exhibit

Raises awareness of atomic energy by tracing the nuclear fuel cycle in generating electricity and the history of the earth's natural nuclear power.
\$100,000 during four years

International Balloon Museum Foundation

Supports tourism by drawing attention to Albuquerque as an international venue for balloonists, and provides educational outreach on the history of ballooning.
\$75,000 during three years

The funds come from revenues generated by a permanent endowment. In 2005 the foundation distributed nearly \$630,000. Since its creation, the foundation has distributed more than \$5 million.

INVESTING IN COMMUNITY PAYS OFF

In its sustainability grant impact report, the Samaritan Counseling Center credited much of its corpus growth to \$1 million from \$100,000 to a partnership with the non-profit PNM Resources Foundation.

In 2001, the PNM Resources Foundation made a five-year, \$200,000 investment in the future success of the center. The grant challenged the center to raise a matching \$50,000 during the five years, which it surpassed.

The grant included support for an ethics in business program, which now accounts for 20 percent of the revenue to the center.

In the five years that the endowment has grown, the Samaritan Counseling Center has doubled its services, providing counseling to more than 1,200 children and adults each year who are battling depression, anxiety and trauma recovery.

"The PNM Resources Foundation's investment in the Samaritan Counseling Center has yielded enormous returns," said Paul E. Hopkins, the center's executive director. "During the past five years Samaritan has provided nearly \$1.5 million worth of charitable services to poor and uninsured people in central New Mexico."

VOLUNTEER GRANTS 2005

Total Contribution: \$42,600

Number of Employees: 222

Several non-profit organizations benefited from multiple PNM Resources volunteers and resulting contributions.

Volunteer support

PNM Resources enhances the contributions of our employees' volunteer time by providing financial contributions to the non-profit organizations they support. Employees who annually contribute 12 hours of service to qualifying non-profits may direct the company to donate \$100 to that organization. Employees who donate more than 25 hours may direct \$200.

Adaptive Ski Program Santa Fe

Alamo Rotary Little League

Albuquerque Academy

American Cancer Society

*Amigos de las Americas -
Albuquerque Chapter*

Albuquerque City Parks & Recreation

*Albuquerque Hispano Chamber
of Commerce*

Albuquerque Museum Foundation

Albuquerque Pre-School Co-Op

Altrusa International of Portales

American Red Cross San Juan Chapter

*Animal Humane Association of
New Mexico*

*Assistance League of
Albuquerque, Inc.*

Ballet Theatre of New Mexico

Belen High School

*Big Brothers Big Sisters
of Central New Mexico*

Birthright of Albuquerque

Bloomfield Senior Center

*Blue Star Mothers of America -
New Mexico Chapter*

Bosque Farms Fire Dept. 1455

Bosque Preparatory School

Boy Scouts of America Troop 147

Boy Scouts of America Troop 156

Boy Scouts of America Troop 314

Boy Scouts of America Troop 444

Brazos Canyon Volunteer Fire Dept.

Camp Fire USA, Inc.

Camp Fire USA, Inc. 1613

Capshaw Middle School

*Care Net Pregnancy Center of
Albuquerque*

Career Guidance Center 115

Challenge New Mexico

Chamisa Elementary School

Childhaven

*Rebuilding Together with Christmas
in April*

*Cliff Gila Grant County Fair
Association*

Cloud Dancers of the Southwest, Inc.

Clovis Christian School

Del Norte High School

Dugan-Tarango Middle School

Duke City Soccer League

Economic Forum

El Ranchito de Los Niños

Eldorado High School

Eunice Public Schools

Evangel Christian Academy

*Faith Tabernacle's TenderCare
Preschool and Daycenter*

*Friends of the Rio Grande
Nature Center*

*The Friends of the Rio Grande Nature
Center State Park*

Future Farmers Of New Mexico - Belen

Girl Scouts of Chaparral Council

Goddard High School 701

*Golden Apple Foundation of
New Mexico*

Boy Scouts of America - Albuquerque

The Harmony Project

HawkWatch International, Inc.

Hope Christian School

Horizon Academy Northwest

*Hispano Chamber of Commerce
de Las Cruces*

Immanuel Lutheran School & Church

*Interfaith Hospitality Network
of Albuquerque, Inc.*

*International Right of Way Association
- Chapter 53*

Junior Achievement

Kearny Elementary School

Kirtland Central High School

Knights of Columbus Lamy Council

Laguna Education Foundation

<i>Las Terrazas Neighborhood Association</i>	<i>New Mexico Highlands University Economic Development Center</i>	<i>San Felipe de Neri School</i>	<i>Valley High School</i>
<i>Las Vegas City Public Schools</i>	<i>New Mexico Jazz Workshop, Inc.</i>	<i>San Juan County Partnership, Inc.</i>	<i>Veterans of Foreign Wars, Santa Fe Post 2951</i>
<i>LBJ Middle School</i>	<i>New Mexico Junior Miss Los Lunas</i>	<i>San Juan United Way - Success By 6</i>	<i>Village of Tularosa</i>
<i>Leadership New Mexico</i>	<i>New Mexico Junior Rodeo Association</i>	<i>Sandia Preparatory School</i>	<i>Volunteer Albuquerque</i>
<i>The Learning Community Charter School</i>	<i>New Mexico Parent and Child Resources, Inc.</i>	<i>Santa Fe County 4-H</i>	<i>Walkin N Circles Ranch</i>
<i>The Leukemia & Lymphoma Society</i>	<i>New Mexico Quarter Horse Association</i>	<i>Service Corps of Retired Executives SF Chapter</i>	<i>Watermelon Mountain Ranch</i>
<i>LLAVE PNM</i>	<i>New Mexico Symphony Orchestra</i>	<i>Shiprock Alternative Schools, Inc.</i>	<i>Wesley Kids</i>
<i>Longfellow Elementary School</i>	<i>Northwest New Mexico Hospice</i>	<i>Silver City Lions Club</i>	<i>West Gate Little League</i>
<i>Los Lunas High School</i>	<i>The Oasis - Children's Advocacy Center</i>	<i>Silver Horizons New Mexico</i>	<i>Wild Spirit Wolf Sanctuary</i>
<i>Los Lunas Junior Miss</i>	<i>Otero County 4-H Rodeo Board</i>	<i>Southwestern New Mexico State Fair</i>	<i>Wildlife Rescue Inc.</i>
<i>Manzano Day School</i>	<i>Our Lady of Annunciation School</i>	<i>St. Felix Pantry</i>	<i>Women's Economic Self-Sufficiency Team (WESST)</i>
<i>Manzano High School</i>	<i>P B & J Family Services Inc.</i>	<i>St. Pius X High School</i>	<i>Women's Housing Coalition</i>
<i>Marshall Memorial Library</i>	<i>Paradise Hills Little League</i>	<i>St. Thomas Aquinas School</i>	<i>Working Classroom</i>
<i>Meals on Wheels</i>	<i>Pennies for the Homeless</i>	<i>St. Vincent de Paul Society, Archdiocese of Santa Fe</i>	<i>YAFL 5300</i>
<i>Mike "Mateo" Sena Elementary School</i>	<i>Piedra Vista High School</i>	<i>El Paisano Educational Resources, Inc.</i>	<i>YMCA of Albuquerque</i>
<i>Mountainside YMCA</i>	<i>Pojoaque Volunteer Fire Department</i>	<i>Susan G. Komen Breast Cancer Foundation</i>	<i>YWCA of the Middle Rio Grande</i>
<i>National Atomic Museum Foundation</i>	<i>Prostate Cancer Support Association of New Mexico</i>	<i>Sweeney Elementary</i>	
<i>National Multiple Sclerosis Society Rio Grande Division</i>	<i>Raven Junior Wrestling</i>	<i>Tai Chi Chih Association</i>	
<i>National Wild Turkey Federation Llano Y Estacado Clovis Chapter</i>	<i>Reginald Chavez Elementary School</i>	<i>Taos Community Orchestra and Chorus</i>	
<i>Native American Lending Group</i>	<i>Retired & Senior Volunteer Program</i>	<i>Taos County Crime Stoppers</i>	
<i>Navajo Missions, Inc. 1</i>	<i>Right to Life Committee of New Mexico</i>	<i>Taylor Middle School</i>	
<i>Navajo Missions, Inc.</i>	<i>Rio Grande Christian Academy</i>	<i>Teen Challenge of New Mexico</i>	
<i>New Hope Christian Academy</i>	<i>Rio Rancho High School</i>	<i>Tree New Mexico</i>	
<i>New Mexico 4-H Youth Development Foundation</i>	<i>Roadrunner Food Bank, Inc.</i>	<i>United Blood Services</i>	
<i>New Mexico Amateur Hockey Association</i>	<i>Ronald McDonald House Charities of New Mexico 1</i>	<i>United Way of Central New Mexico</i>	
<i>New Mexico Boys & Girls Ranches, Inc.</i>	<i>Roosevelt Middle School</i>	<i>United Way of Chaves County</i>	
<i>New Mexico CASA Network</i>	<i>Samaritan Counseling Center Foundation, Inc.</i>	<i>University of New Mexico Foundation, Inc.</i>	
<i>New Mexico Citizen Review Board</i>		<i>UNM - School of Architecture & Planning</i>	
<i>New Mexico Friends of the Forest</i>			

Aiding others in need

Employees of PNM Resources and its subsidiaries didn't have to watch news reports to grasp the enormous human impact of Hurricane Katrina.

Within days of the devastation in Mississippi and Louisiana, tens of thousands of evacuees poured into Texas and other nearby states, including New Mexico.

Texas-New Mexico Power and First Choice Power operate in the area south of Houston, one of the primary destinations for evacuees because of its proximity to the hurricane-impacted region. Employees there witnessed the steady stream of people needing help.

Employee volunteers organized food and clothing drives and worked with community groups to find housing. Company relief efforts rose to a new level in August when PNM Resources pledged to match as much as \$75,000 in employee and customer contributions to the American Red Cross. Contributions far exceeded the challenge, and PNM Resources raised its match to \$100,000.

The effort raised more than \$500,000 for relief efforts.

In addition to monetary assistance, crews from PNM and TNMP traveled to Louisiana and Mississippi to help restore power. They spent weeks away from their families, often sleeping in tents because of the lack of hotels. Residents on several occasions applauded the crews as power was restored.

With the Gulf Coast reeling from Katrina, two more hurricanes struck before year-end, and PNM and TNMP again sent crews to assist with restoration. In all, about 85 linemen helped communities restore power from the devastation left behind by Hurricanes Katrina, Rita and Wilma.

ENCOURAGING COMPASSION ►

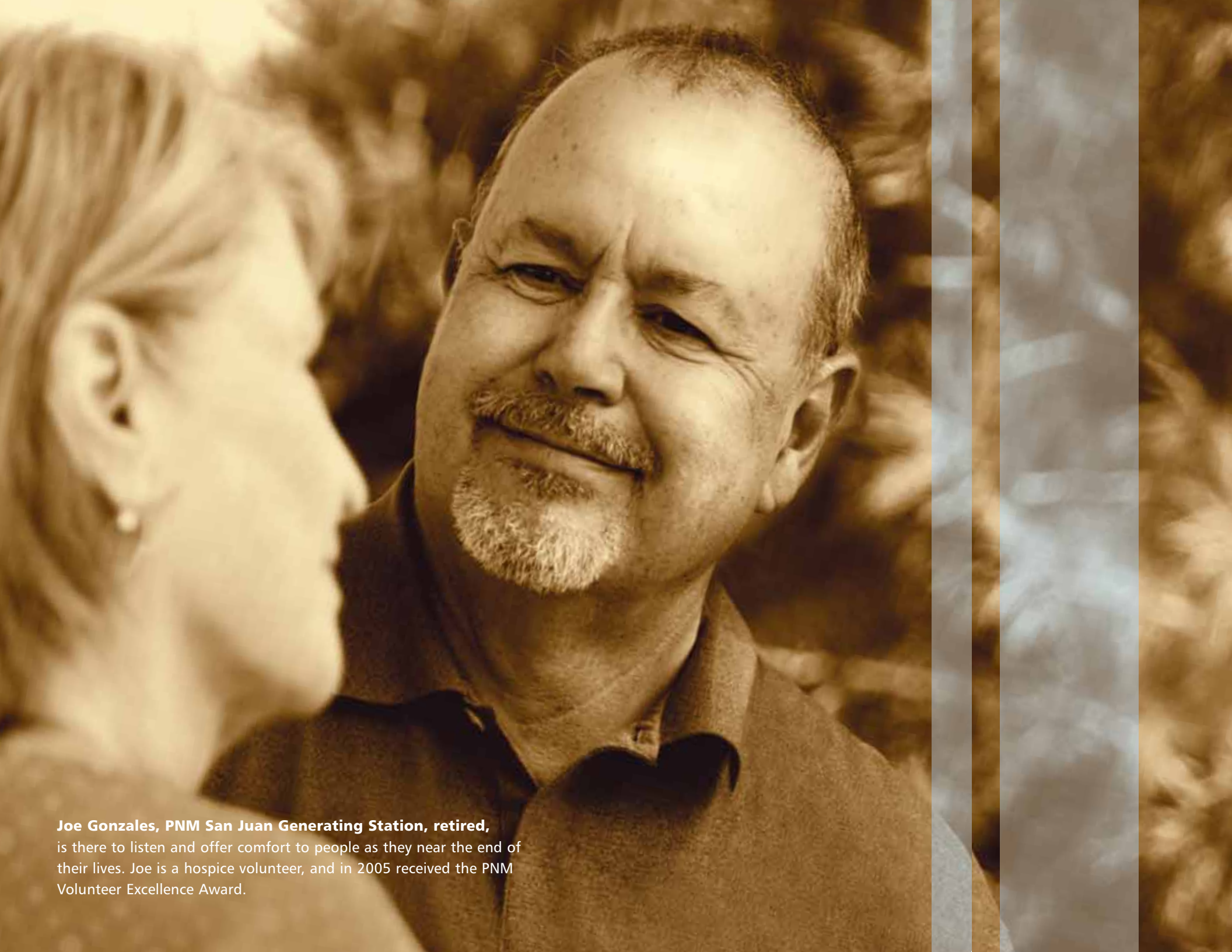
Since 2003, Joe Gonzales has been with families during one of the most intimate and difficult experiences of their lives – as they lose a loved one.

Gonzales, a retired employee at PNM San Juan Generating Station, received the PNM Volunteer Excellence Award in 2005 for dedicating his time to Northwest New Mexico Hospice. The non-profit provides a staff of doctors, nurses and volunteers for the families of terminally ill patients.

Joe fills a diverse list of needs for patients and their families from mundane tasks such as vacuuming or running errands to extraordinary ones, like providing spiritual comfort to a patient nearing the very end of his or her life.

“Being close to someone in the last days of their life has changed my life,” Joe said. “I’ve learned there is so much more to life than possessions. It’s about making a difference, taking care of your family – those are the kinds of things you make sure you did at the end of your life.”

Joe has been a lifelong volunteer in the Farmington community. His compassion is something PNM Resources proudly supports through its Volunteer Grant program.



Joe Gonzales, PNM San Juan Generating Station, retired, is there to listen and offer comfort to people as they near the end of their lives. Joe is a hospice volunteer, and in 2005 received the PNM Volunteer Excellence Award.

Helping the community helps business

Supporting communities and strengthening company performance complement one another, as 2005 demonstrated.

PNM Resources conducts an annual corporate fund-raising campaign for United Way. In previous years, offices throughout New Mexico carried out their own United Way campaigns that funded local non-profit organizations.

But in 2005, the company expanded significantly when it acquired new subsidiary companies Texas-New Mexico Power and First Choice Power, with offices throughout Texas and Southern New Mexico. PNM Resources faced the challenge of helping introduce 783 new employees to the company's five High Level Objectives, which form the backbone of the PNM Resources business plan.

At the same time, United Way organizers within the company were challenged to overcome the logistical hurdles of waging a meaningful campaign that included new employees in a vastly expanded geographical service territory.

Both challenges were met when campaign planners embraced the United Way campaign as a natural way to introduce new employees to the company's objective of becoming our communities' most valued partner and trusted corporate citizen. Organizers adopted a campaign theme of "Make the Connection" in order to reflect how supporting United Way connected employees to the company's business strategy, and the company to the community.

The corporate-wide campaign was a success. All PNM Resources employees were able to participate in company-wide fundraising events, while allowing all offices in New Mexico and Texas to share fundraising ideas that have worked or failed in previous campaigns.

The campaign surpassed goals, contributing a total of \$1,029,720 to communities in New Mexico and Texas served by PNM Resources subsidiary companies. About 1,800 PNM Resources employees pledged donations, and many more participated in fundraising events, helping to unify employees under the company's community leadership goal.

Preserving cultural legacies

PNM Resources places a high value on helping to preserve the cultural resources found throughout its service territories.

Through our subsidiary companies PNM and Texas-New Mexico Power, we own and operate more than 23,000 miles of electric power lines and more than 13,783 miles of natural gas lines.

In the course of maintaining existing facilities or constructing new ones, our employees are trained to recognize cultural remains and to take extreme care in avoiding disturbing sensitive sites. There are nearly 150,000 recorded archaeological sites in New Mexico alone.

The sheer volume of culturally sensitive sites combines with the fact that, in many cases, disclosing the location of these sites is prohibited by law. Only a select few trained archeologists within the PNM Environmental Services Department have access to such information. This has made it difficult for field workers to know when their construction projects are near sensitive areas.

The company has been able to overcome this challenge by developing a system called "HotZones," a geographic information system that identifies areas of general sensitivity including cultural sites as well as known sensitive species habitat, wetlands and other areas of environmental concern. Using this tool, planners are now able to identify when their projects are in an area where precautions must be taken, and know before work even begins that their project needs to be screened by the environmental services department.

HotZones and the environmental management system of which it is a part is helping PNM protect the cultural legacies of New Mexico. In recent years the company has maintained a "zero preventable incidents" status for cultural sites. In undeveloped areas, we frequently survey for archaeological sites before projects are constructed and whenever possible power and natural gas lines are rerouted to avoid encroaching on sensitive sites. When working in sensitive areas, we frequently assign site monitors to work areas to ensure sites are not disturbed.

While the environmental management system currently applies only to PNM operations, its scope will expand as TNMP is further integrated into the company.

SYSTEMATIC PROTECTION

Each year subsidiary PNM screens approximately one out of every five work orders generated to protect culturally and environmentally sensitive sites through its environmental management system, for a total of about 1,200 projects in 2005.





Ron Fields, PNM Environmental Services, holds one of the thousands of spearheads he has fashioned. Ron spends much of his free time demonstrating ancient tool-crafting techniques at community events, schools and museums.

◀ BRINGING THE PAST TO LIFE

For Ron Fields, prehistoric culture is not a thing of the past. He's been bringing it to life since he was a kid.

Ron is an environmental scientist in the PNM Environmental Services Department. With training as an anthropologist and archeologist, part of his responsibility is to ensure sensitive cultural sites are protected during construction projects.

It's a great job for Ron. But he works just as hard away from PNM, chipping projectile points from obsidian and other materials and recreating the ingenuity of our ancestors. From making rope from plant fibers to starting cook fires with a bow and a stick, Ron has mastered numerous techniques employed by ancient cultures from around the world. He spends much of his free time demonstrating these techniques

at community events, museums, schools and parks.

There's something mesmerizing about watching Ron take a rough piece of obsidian and gradually chip it into a spearhead. The process takes about an hour, and often people, especially children, will watch him from beginning to end.

"That's what it's all about," Ron said, who has also made an atlatl, or spear-thrower, for his six-year-old daughter. Ron is committed to bringing the past to life for children. "They're the ones who will carry on our environment, traditions, customs and beliefs; our culture," he said.

Ron's own passion for prehistory started when he was a child. At the age of eight he was picking blackberries with his father in rural Ohio when he stumbled on a strangely shaped rock. His father

suspected it was an ancient axe head, and Ron's own research proved it to be so. The axe head dated between 3,000 and 5,000 years old.

"That one piece forever changed my life," Ron said. His curiosity became insatiable, and he spent most of his time trying to replicate the artifacts that so intrigued him. Now 38, Ron cannot count how many projectile points he's made. "Hundreds, maybe thousands," he guesses.

His studies of ancient cultures and his experience with them through his work have led Ron to a single conclusion: "Regardless of time or place, people are people. We are inheritors of our culture and our environment, and it's up to us to preserve them."



"We are inheritors of our culture and our environment, and it's up to us to preserve them."

– Ron Fields



Employer of choice

The PNM Resources vision is to build America's best merchant utility. To achieve this vision we have established five High Level Objectives that our employees are asked to support in the performance of their duties.

In 2005, PNM Resources invested \$427,000 in our Educational Assistance Plan, which reimburses employees for job-related coursework.

Customer Loyalty

Create quality, value and confidence in the eyes of our customers

Meeting these objectives requires attracting the most talented employees possible. We do so by striving constantly to be an employer of choice, offering competitive compensation packages, encouraging workforce diversity, promoting a safe work environment and operating our business in accordance with the highest ethical standards.

Workplace Excellence

Create a workplace that promotes our development, engagement and well-being

Environmental Sustainability

Protect and improve the environment while meeting the needs of customers, employees, investors and our communities

Shareholder Value

Transform customers' needs into shareholder value

Community Leadership

Be our communities' most valued partner and trusted corporate citizen

PROVIDING COMPETITIVE BENEFITS

PNM Resources values its reputation as a long-standing key employer with more than 3,300 employees in New Mexico and now in Texas.

With a diversified workforce in age, gender and ethnicity, we offer different benefit packages to meet the specific needs of employees to support their well-being. The array of benefits ensures a competitive, market-based offering and includes the following:

Medical

We offer our employees and their dependents healthcare plans that provide a wide variety of benefit coverage including hospital, surgical, physician, dental, prescription drug and more. The costs are shared between the employee and the company, with PNM Resources picking up the majority of the cost; as much as 80 percent. In 2005

we invested almost \$12 million in healthcare costs, which doesn't include retirees. In 2006, the company expects to invest about \$21 million. In 2005, the cost of many products and services including healthcare costs increased. With a nationwide increase of 14 percent, we still managed to keep health care costs below average with an increase of only five percent.

Wellness programs

Investing in wellness programs and seminars for employees helps keep healthcare costs lower than average, because a healthier workforce means less healthcare expenses for both the company and employee. We are committed to providing tools, health education and encouraging behavior changes to guide employees to a healthy lifestyle.

In 2005, we invested \$260,000 in these wellness programs. In 2006, the company expects to invest more than \$360,000 as these programs are introduced to employees in all of our subsidiary companies.

Retirement

We make it easier for employees to plan for their retirement by offering a savings program that allows employees to accumulate savings through individual pre-tax 401(k) contributions. The company matches 75 cents for every dollar contributed up to six percent, with an additional automatic age-based contribution ranging from three percent to 10 percent of eligible compensation. In 2006, the company will contribute more than \$20 million to company matching and age-based contributions.

Educational assistance

We recognize the importance of honing employees' skills to meet the challenges of the changing business environment by providing tools such as training and educational assistance programs. Our Educational Assistance Plan reimburses employees up to the federal limit of \$5,250 for degree programs, of which \$1,100 can be used for non-degree, job-related course work. In 2005, the company contributed \$427,000 to this program with 15 percent workforce participation. In 2006, employees of our new subsidiary companies now qualify and we plan to invest \$600,000 in educational assistance.

NURTURING DIVERSITY

PNM Resources believes the strength of its workforce is rooted partly in the culturally diverse people it employs, and believes strongly in supporting that diversity.

Evidence of this support is abundant. For example, FORTUNE magazine in 2005 once again recognized PNM Resources as one of the top 50 best employers for minorities. It's the seventh consecutive year that we have been recognized by the magazine for our diversity among employees. We were also proud to be named a Veteran Friendly Employer by the President's National Hire Veterans Committee in 2005.

We promote diversity outside of the workplace by sponsoring important programs with similar missions. For example, we were sole sponsor of the New Mexico NAACP job fair.

Diversity in the workplace is encouraged through support of affinity groups formed by our employees. These groups include:

WPO

For nearly 20 years, the Women's Professional Organization (WPO) has created an environment for both women and men to share workplace experiences and has provided employees with the opportunity to network and develop professional and leadership skills.

The organization provides 59 members and about 1,000 employees with opportunities to attend lunch meetings and seminars that educate employees about issues including financial management, self-defense, signs of domestic violence and more. In addition, the organization adopts two economically disadvantaged families every year during the holiday season and requests employees' support by donating gifts that are distributed to the families.

Llave

Llave is the PNM Resources Hispanic Employee Association formed by employees as a non-profit corporation in 1991 for educational, cultural and charitable purposes.

The group promotes education and cultural appreciation for Hispanics, 43 percent of the PNM Resources workforce. The primary purpose of Llave is to foster diversity by promoting education and cultural appreciation at PNM Resources and in the community and providing a forum for addressing issues and concerns regarding diversity.

American Indian Association

A new affinity group established in 2005, the American Indian Employee Association is dedicated to increasing awareness of American Indian culture and government and promoting the success of American Indian employees.

There are 125 American Indian employees, or five percent of the workforce, who are an important part of the PNM Resources employee base. About 20 employees joined the organization during the first meeting.

A DIVERSE WORKFORCE

340 veterans

43 percent of workforce is minority

5 female officers

3 minority officers

3 female board members

2 minority board members



PNM Resources employees Dan Drennan, top left, Elizabeth Culpepper, top right, Kumiko Styes, bottom left, and Vidal Trujillo, bottom right, provide a snapshot of the company's ethnically diverse workforce.

Growing a culture of safety

Observing regulatory guidelines and reducing the financial impact of injuries are important to the company, but are second to the pursuit of what is right to protect employees from death, injury or illness in the workplace.



A focused safety campaign will be a prominent feature in the workforce.

PNM Resources has acknowledged a sharply higher rate of workplace injuries within its subsidiary utility PNM. In response, we added a new safety and labor relations director position in 2005 to develop and implement a safety plan with strategies that will apply to all employees and create a foundation upon which a safety culture is built throughout the company.

We compare the relative safety records of our companies by tracking recordable incidents as defined by the Occupational Safety & Health Administration (OSHA). In short, we calculate the number of annual workplace injuries that require medical attention per 100 employees to determine an OSHA Recordable Incident Rate (ORIR).

In 2005 the ORIR at PNM was significantly higher than at Texas-New Mexico Power (TNMP), with PNM scoring six incidents per 100 employees and TNMP scoring 1.25 per 100 employees.

This contrast underscores the opportunity for improvement, and we plan to adopt best practices from TNMP in order to significantly improve safety performance throughout the corporation.

A focused safety campaign will be a prominent feature in the workplace in 2006, and the results of that campaign will be shared in our 2006 sustainability report.

Ethics

At PNM Resources integrity is everyone's business.

The value of integrity

The responsibility for business ethics resides with each employee and is a shared value of all. We strive for the highest level of ethical conduct in our daily business practices.

Our commitment to ethical behavior has been formally reflected in our organizational structure for more than a decade through a business ethics and corporate compliance program. The program is designed to make sure that dealings with customers, coworkers, shareholders and business partners and in the communities we serve are above reproach. Our ethics program includes:

- A corporatewide ethics committee made up of senior officers and led by the chief executive officer

- A network of ethics and compliance representatives who assist employees throughout the corporate enterprise
- A full-time program director
- A guidebook — DO THE RIGHT THING: Principles of Business Conduct — outlining principles that every employee is required to follow.

We have institutionalized our business conduct awareness through education and training programs designed to reach all employees. Employee resources include:

- The PNM Resources Integrity Line, operated by an independent company that provides an anonymous reporting service for hundreds of companies nationwide

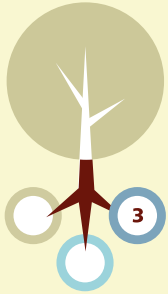
- PNM Resources Intranet site dedicated to ethics and compliance
- Timely and relevant articles published in the company's weekly online newsletter and in a monthly publication for employees
- Informational posters throughout the company
- Ethics orientation for all new employees and specialized training for new supervisors.

New policy reflects focus on integrity

PNM Resources announced a new, stand-alone conflict of interest policy in 2005. Having a specific conflict of interest policy reflects the importance of this issue, providing a tool to help assure that employees, management and board members are appropriately fulfilling their legal and fiduciary responsibilities.

All employees have the responsibility to avoid any situation or relationship that can cause a conflict of interest or create the appearance of a conflict of interest. Violations of the conflict of interest policy may result in disciplinary action, including termination of employment.

Our ethics and compliance programs and this new policy are in place to promote ethical business conduct by all employees above and beyond compliance with laws, rules and regulations.



Financial strength

The financial strength of PNM Resources is key to the overall sustainability of our company, and in 2005 we demonstrated that strength as we expanded into new regions and overcame challenges.

3 ECONOMY

In mid-2005 we acquired two new subsidiary companies; Texas-New Mexico Power with operations in New Mexico and Texas, and First Choice Power, a competitive retail energy provider in Texas. The acquisition immediately benefited the company by providing an earnings stream that offset the impact of higher purchased power costs, which were a result of several plant outages and higher natural gas costs.

Our ongoing earnings per diluted common share increased for the fourth straight year, and we contained operating and maintenance expenditures despite rising business costs. In addition, our board of directors approved increases in the company's common stock dividend in 2005 and early 2006, providing shareholders with an indicated annual dividend rate of \$0.88 per share – an increase of 37.5 percent since 2004.

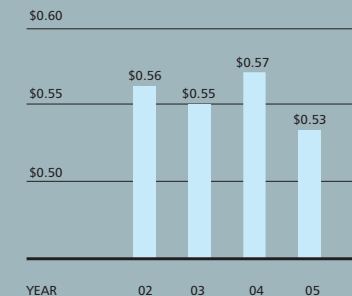
We helped our customers as they faced a year marked by rising energy costs. In a winter when natural gas prices reached record highs, subsidiary PNM launched an aggressive communications program to educate customers on managing heating costs through energy efficiency measures.

PNM Resources also continued its focus on growing jobs and economic opportunities in the communities we serve through our active involvement in economic development.

Ongoing Earnings per Diluted Common Share



O&M per Dollar Margin



The power of two

The acquisition of a Texas-based energy company has made PNM Resources a stronger, more diverse company.



New subsidiaries strengthen company

On June 6, 2005, PNM Resources expanded its operations into Texas with the acquisition of Fort Worth-based TNP Enterprises and its subsidiaries, Texas-New Mexico Power (TNMP), and First Choice Power. The combination of the companies results in PNM Resources being a more diverse corporation in terms of earnings potential, service territories and customer-usage patterns.

TNMP electric operations differ in scope in Texas and New Mexico.

In the Texas competitive electric market, TNMP is a transmission and distribution company, delivering electricity to residents and businesses on behalf of a host of retail electric providers (REPs), including First Choice. In New Mexico, TNMP is a traditional, integrated electric utility – like PNM – serving several southern New Mexico communities.

First Choice is an REP competing for customers throughout much of Texas. The Texas Electric Choice Act in 2002 required most of the state to open its doors to competition. In much the same way consumers shop for long-distance providers, the Texas electricity market allows retail customers to pick their power company.

First Choice inherited customers in the TNMP service territory who did not switch electric companies and has added customers who left other incumbent utilities and sought out the benefits of competition.

The acquisition provided PNM Resources with several opportunities to improve service and become more efficient. The TNMP Texas call center has been integrated with the PNM call center, under the PNM Resources umbrella. During 2007, we will combine the TNMP-New Mexico electric operations with the PNM electric business, a consolidation that provides an opportunity to strengthen our relationships with the communities we serve in southern New Mexico.

The acquisition provided PNM Resources with several opportunities to improve service and become more efficient.

Cultivating opportunity through economic development

PNM Resources believes it has a responsibility as a major company to help grow the economies of our communities. By doing so, we create a better business environment in which our company may prosper, and a better quality of life for our employees and our communities. This is why we have dedicated a department to supporting economic development in our service territories, and why we support numerous economic development initiatives.

Growing jobs

In 2005, PNM Resources led a coalition of 72 members known as the Incentives for Jobs Coalition. For the fifth year in a row this coalition has successfully lobbied for key economic development legislation for rural and urban areas in the state.

This year five of the eight bills or funding requests passed and were signed by the governor, including continued funding for critical programs such as the New Mexico Economic Development Partnership.

The coalition successfully lobbied for a new tax credit for research and development for small businesses that create new technology and products, and removal of the sunset clause on the Rural Jobs Tax Credit.

Empowering growing businesses

PNM Resources, the New Mexico Economic Development Department and New Mexico Manufacturing Extension Partnership teamed up in October to present business workshops in the communities of Pojoaque, Las Vegas, Roswell, Clovis and Deming.

The workshops offered information on state business assistance programs such as the Job Training Incentive Program, New Mexico 9000 ISO certification and alternative financing and technical assistance programs. More than 100 business owners participated in the workshops.

Encouraging sustainable development

PNM Resources played a role in helping to retain and support the expansion of Advent Solar, the first industrial tenant at Mesa del Sol, a new mixed-use 12,400-acre development south of Albuquerque.

In fall 2005, Advent Solar, a developer of advanced technology solar cells and modules, announced it would locate its research, development and manufacturing operation at Mesa del Sol and expects to employ as many as 1,000 people within five years.

Advent Solar is leading the way for other renewable energy companies by bringing clean, sustainable economic development to the area. We will continue to work with Mesa del Sol in coming years to grow jobs in New Mexico.

In 2005 our economic development team assisted in the recruitment or expansion of six companies that made a combined investment of more than \$930 million and led to the creation of 2,350 new jobs.



Maximizing tax rebates

In the second year of a three-year commitment, utility subsidiary PNM again provided funding and advertising for Albuquerque-based Central New Mexico Community College's Tax Help New Mexico. This program has brought millions of dollars back to our state, specifically to elderly and low-income New Mexicans who had previously not received tax refunds.

Students and volunteers provide free income tax return preparation for elderly and low-income New Mexicans, allowing them to take advantage of the Earned Income Tax Credit and other tax credits.

In 2005, the program nearly tripled the number of customers helped since 2003, with 26,338 residents being provided free tax preparation resulting in more than \$21 million in earned income tax credits.

Locating new businesses

PNM Resources works closely with the state and economic development organizations throughout New Mexico to assist existing businesses with expansions and recruit new industry to our state.

In 2005 our economic development team assisted in the recruitment or expansion of six companies that made a combined capital investment of more than \$930 million and led to the creation of 2,350 new jobs.

PNM and Texas-New Mexico Power representatives from Alamogordo, Clovis, Las Vegas and Southeastern New Mexico worked closely with economic development organizations in their communities to locate companies such as Sunbaked Biscuits, Precheck, Mesa Ingredients and the Millennium Bus.



Managing energy bills

In 2005 we helped our natural gas customers manage their heating bills in the face of soaring natural gas prices.

Preparing for winter

The approach of the 2005-2006 winter season brought with it record-high natural gas prices that were likely to create economic hardship to large numbers of PNM customers, for whom natural gas is the primary source of heat for most homes.

Utility subsidiary PNM, the largest distributor of natural gas in New Mexico, recognized this potential crisis and took steps immediately to help customers prepare by offering the PNM Winter Tool Kit, a program that included:

- Distributing 20,000 free home weatherization kits to residential customers throughout the state
- Sending free bilingual heating season weatherization DVDs to more than 10,000 customers
- Campaigning for donations to the PNM Good Neighbor Fund bill assistance program for low-income families through television and

radio appearances, web postings and other communications. Total Good Neighbor Fund donations for the 2005-2006 heating season amounted to \$153,475, including customer and employee donations and matching donations from PNM Resources shareholders

- Offering a coupon in customer bill inserts that entitled customers to receive up to 50 percent off the purchase of home weatherization supplies
- Working with a local ABC television affiliate to organize an "Extreme Energy Make-over" event in which a customer's home was weatherized by local on-air personalities and PNM volunteers and broadcast statewide
- Coordinating PNM employee volunteers in weatherizing the homes of more than 100 homes of low-income residents

- Promoting the availability of federal Low Income Home Energy Assistance Program (LIHEAP) funds to customers statewide through PNM-staffed phone banks on local television newscasts and other communication channels
- Presenting weatherization and bill assistance information to hundreds of customers through the PNM Speakers Bureau
- Assisting customers with LIHEAP application information, letters, pamphlets and referrals through PNM to the state Human Services Department.

This massive customer outreach effort appears to have had an effect. Customer consumption dropped by an average of 10 percent per customer from the previous winter, after adjusting for differences in weather.

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