A close-up photograph of a hand holding a white incandescent light bulb. The bulb is the central focus, with a white square box around it containing the word "focus". The background is dark and out of focus, showing parts of the hand and the bulb's base.

focus

PNM Resources[®]

2008 ANNUAL REPORT

investor

highlights

In thousands except per share amounts and ratios

FINANCIAL DATA ⁽¹⁾

	2008	2007	2006
Operating Revenues from Continuing Operations	\$1,959,522	\$1,914,029	\$1,963,360
Operating Expenses from Continuing Operations	\$2,189,336	\$1,788,987	\$1,713,527
Earnings (Loss) from Continuing Operations	\$(305,272)	\$59,358	\$107,960
Net Earnings (Loss) Available for Common Stock	\$(270,644)	\$74,847	\$120,818
Retained Earnings	\$327,290	\$638,229	\$635,550

COMMON SHARE DATA ⁽¹⁾

Earnings (Loss) per Share – Basic			
Ongoing Earnings ^(2,3)	\$0.10	\$1.13	\$1.80
Earnings (Loss) from Continuing Operations	\$(3.66)	\$0.77	\$1.55
Net Earnings (Loss)	\$(3.24)	\$0.98	\$1.73
Earnings (Loss) per Share – Diluted			
Ongoing Earnings ^(2,3)	\$0.10	\$1.11	\$1.78
Earnings (Loss) from Continuing Operations	\$(3.66)	\$0.76	\$1.53
Net Earnings (Loss)	\$(3.24)	\$0.96	\$1.71
Book Value per Share	\$19.13	\$22.03	\$22.24
Dividends Declared per Share	\$0.605	\$0.920	\$0.880
Market Price per Share			
High	\$21.69	\$34.28	\$32.07
Low	\$7.56	\$21.05	\$22.49
Close at Year-End	\$10.08	\$21.45	\$31.10
Average Shares Outstanding – Basic	83,468	76,719	69,829
Average Shares Outstanding – Diluted	83,468	77,928	70,636

FINANCIAL RATIOS

Market-to-Book Ratio at Year-End	0.53	0.97	1.40
Price Earnings Ratio at Year-End	Not Meaningful	22.34	18.19
Return on Average Common Equity	(16.0%)	4.4%	8.0%
Dividend Yield on Market Price at Year-End	6.00%	4.29%	2.83%

(1) Continuing operations excludes PNM Gas, which was sold on January 30, 2009.

(2) Ongoing earnings are adjusted to exclude the impact of nonrecurring items and net unrealized mark-to-market gains and losses on economic hedges. Ongoing earnings also include discontinued operations.

(3) Reconciliation of ongoing earnings per diluted share to Generally Accepted Accounting Principles (GAAP) earnings:

2008 diluted ongoing EPS	\$0.10	2007 diluted ongoing EPS	\$1.11	2006 diluted ongoing EPS	\$1.78
Acquisition/Divestiture	(0.07)	Afton write-down	(0.15)	Acquisition Integration Costs	(0.04)
Afton write-down	(0.02)	Business improvement plan	(0.12)	Optim Energy Formation Costs	(0.03)
Business improvement plan	(0.07)	Economic mark-to-market hedges	(0.06)	2006 GAAP diluted EPS	\$1.71
Depreciation on gas assets	0.16	Favorable tax decisions	0.27		
Economic mark-to-market hedges	(0.05)	Optim Energy Formation costs	(0.02)		
FIN 48 interest	(0.03)	Loss on contribution of Altura	(0.03)		
Gain on sale of merchant portfolio	0.03	Sale of turbine	0.03		
Impairment of intangible assets	(2.54)	Speculative trading	(0.03)		
Regulatory disallowances	(0.22)	Twin Oaks impairment	(0.03)		
Speculative trading	(0.40)	Unrealized impairments of NDT securities	(0.01)		
Texas deferred tax adjustments	0.07	2007 GAAP diluted EPS	\$0.96		
Unrealized impairments of NDT securities	(0.09)				
Write-off emission allowances	(0.11)				
2008 GAAP diluted EPS	\$(3.24)				

Two thousand and eight was a year of significant change – from financial market challenges and the continued volatility of fuel prices to the ever-increasing demands on our generation system. The one constant of this year has been change. Change is hard, but in reality, change is often disguised as something else ... opportunity. For PNM Resources, opportunity lives in our commitment to realign our company to a changing marketplace. We have defined and continue to implement the key initiatives that will maximize the strengths in both our regulated and unregulated businesses. We have the people, the power and the **focus to succeed.**

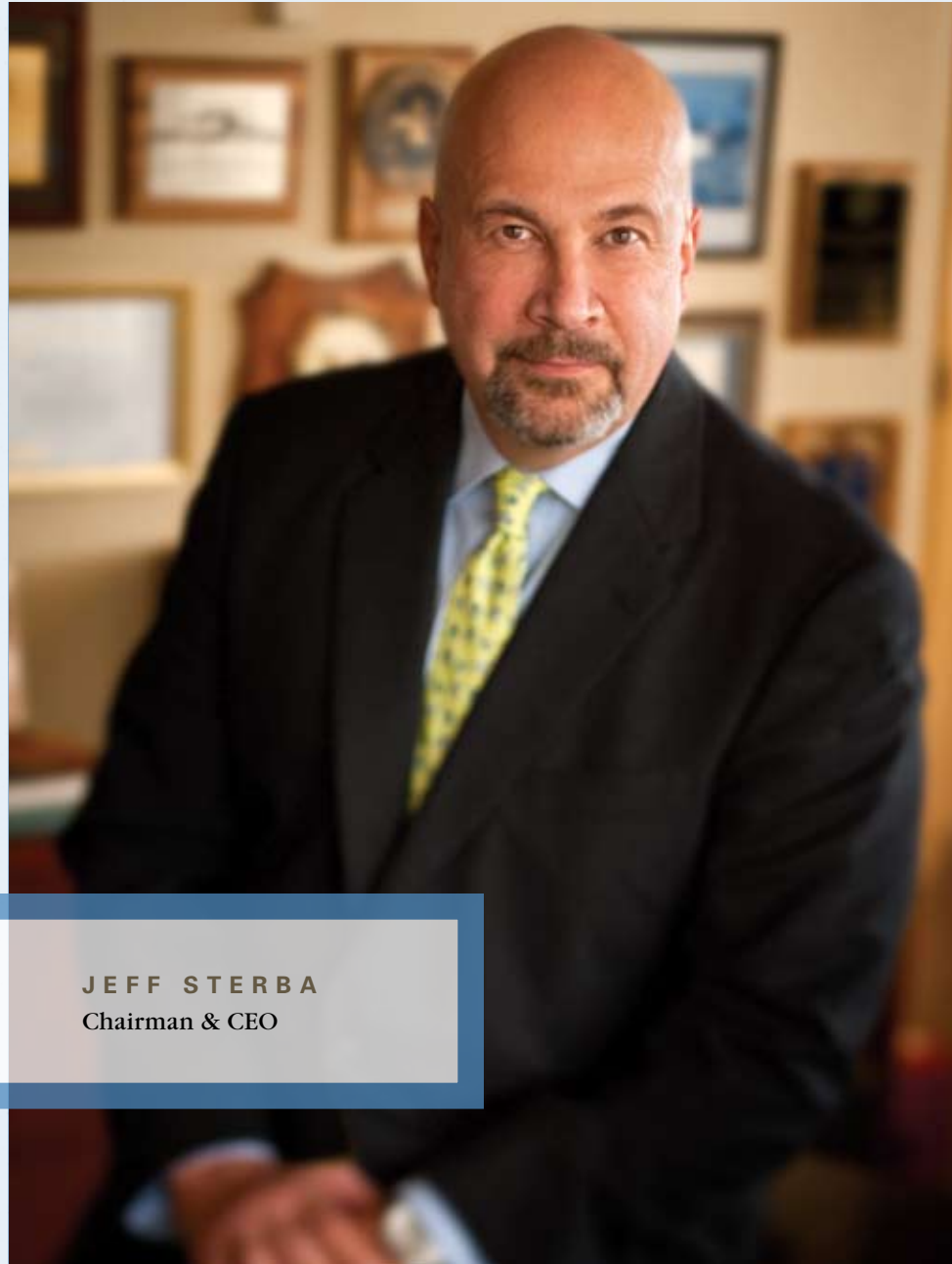
OUR FOUR KEY INITIATIVES

**FOCUS
ON CORE
BUSINESS**

**SIMPLIFY OUR
REGULATED
BUSINESS**

**REDUCE
COSTS**

**OBTAIN
FAIR RATE
TREATMENT**



JEFF STERBA
Chairman & CEO

FELLOW SHAREHOLDERS

In many ways, 2008 will evoke memories most of us would rather forget. It was one of the worst financial years on record, and virtually none of the world's markets or business sectors avoided 2008's record-setting drop in value. Closer to home, we saw foreclosures, volatile oil and gas prices, commodity price inflation and then general economic deflation, and rising unemployment rates. PNM Resources was not immune to 2008's turmoil. Very early in the year I asked our shareholders to expect a significant downturn in value and explained that — for many reasons — PNM Resources would be in a transition period of 18 months or so. Subsequently, you — our investors — experienced a 50 percent drop in total shareholder return during 2008. When I advised shareholders of the expected decline in value, I also explained that this phase would be one of reshaping our businesses and re-setting our future growth trajectory.

“...we were unwavering in our focus on the implementation of four key initiatives...”

It is those two overarching objectives that define our achievements in 2008. Throughout the year, we were unwavering in our focus on the implementation of four key initiatives, and we executed numerous strategic initiatives designed to restore long-term value for our shareholders.

“Moving the plants from our merchant fleet, rather than building new facilities, will save customers an estimated \$144 million during the next 20 years.”



FIRST QUARTILE
RELIABILITY PERFORMER

For the fourth year in a row, PNM has finished in the nation's top quartile for electric transmission and distribution reliability. PNM customers experience fewer outage minutes per year than customers in 75% of the other utilities in the country.

First, we narrowed the company's focus to the core electric business and reached an agreement to sell our utility gas operations for \$620 million. The sale, completed in January 2009, was a key element of our strategy to return our New Mexico utility, PNM, to financial health and strengthen the entire corporation. Proceeds from the sale were used to reduce debt.

Second, we successfully simplified the New Mexico regulated electric business through three crucial steps: 1) we sold a portion of PNM's wholesale energy portfolio; 2) we entered into a long-term power sales agreement that maximizes our investment in our merchant generation capacity from the Palo Verde Nuclear Generating Station; and 3) we reached an agreement with key parties that would allow PNM to designate the Lordsburg Generating Station and the Luna Energy Facility as jurisdictional plants to serve retail customers. Moving the Luna and Lordsburg plants from our merchant fleet to PNM's retail portfolio, rather than building new facilities, will save customers an estimated \$144 million during the next 20 years. It also allows PNM to earn an allowed return on these assets.



focus

on our strengths

operate
efficiently



“Through the implementation of various cost-reduction initiatives, PNM Resources targeted and captured about \$35 million in annualized savings.”

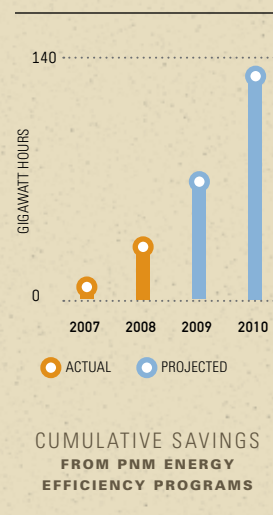
The third key initiative in 2008 was introduced in last year’s annual report when I promised shareholders we would reduce costs wisely. Through the implementation of various efficiency initiatives, PNM Resources targeted and captured about \$35 million in annualized savings. Our Meter-to-Cash program, for example, included nine projects aimed at identifying improvements and reducing costs in all processes from the time a meter is read to the time PNM receives payment from a customer. By the end of 2008, these nine projects provided the company annualized savings of \$5.8 million against a cost-to-achieve of \$2.7 million.

Another necessary cost-reduction action we took was in August 2008, when the board of directors reduced the common stock dividend payment to an indicated annual rate of \$0.50 per share. While this was not an easy decision, the reduction was an essential step to improve the company’s cash position and better align our dividend yield with industry averages.

TNMP HONORED

TNMP has received the Edison Electric Institute’s Emergency Recovery Award for its power restoration efforts after Hurricane Ike devastated the Texas Gulf Coast last fall.

“PNM’s new integrated resource plan calls for the company to add more renewable energy resources...”



We also successfully implemented our fourth initiative to move us closer to obtaining appropriate regulatory treatment for PNM. In May 2008, state regulators approved PNM’s first electric rate increase in more than 20 years. Soon after new rates went into effect, our efforts to implement a fuel and purchased power adjustment clause paid off as regulators approved the mechanism, allowing timely recovery of fuel costs. Later in 2008, PNM filed for another rate increase — an effort to catch up to the increasing costs of meeting the state’s growing need for clean, reliable electricity. Additionally, TNMP, our regulated transmission and distribution utility in Texas, filed for its first rate increase in more than five years to recover the rising cost of maintaining and improving its delivery system.

2008 also marked the completion of our long-range public input process to identify how we will address future power needs in the state. PNM’s new integrated resource plan calls for the company to add more renewable energy resources and significantly increase our energy efficiency programs.

It will take some time for our operational successes to be reflected in your shareholder return — but they are the building blocks for future success.



recover
costs



promote
energy efficiency

2008: THE YEAR IN REVIEW

For the year, ongoing earnings were \$0.10^(1,2) per diluted share, compared with \$1.11^(1,2) per diluted share in 2007. GAAP losses were \$3.24 per diluted share in 2008, compared with earnings of \$0.96 per diluted share in 2007. Our earnings largely were affected by non-cash impairment charges, the aftermath of Hurricane Ike, which struck the Texas Gulf Coast in mid-September, and volatile wholesale power prices and transmission congestion in the Texas market.

The result of new electric rates and the fuel clause helped PNM onto a path of financial recovery. As I mentioned earlier, though, another rate case is ongoing to ensure PNM continues to recover its costs. The recently sold PNM natural gas delivery operations had a solid year as a result of the full-year benefits of higher delivery fees and colder-than-normal weather at the beginning of 2008. Known for so many years as New Mexico's largest electric and natural gas utility, PNM now will serve only electric customers as our strategy to focus on our core electric businesses is in place.

Our Texas operations had mixed results in 2008. First Choice Power, our competitive retail electricity provider, was extremely challenged by volatile prices, transmission congestion, hurricane impacts and unfavorable rules that leave little opportunity for recourse against non-paying customers. The future appears brighter for First Choice Power as 2009 begins a renewed strategy designed to return to solid performance. In addition, Texas' regulatory framework addressed several issues that contributed to First Choice Power's reduced performance in 2008. For instance, officials approved a market rule change designed to help mitigate price volatility in the state's balancing energy market. And we are confident regulators will continue to address other market-wide concerns that will provide the basis for a return to a reasonable business environment.

Formerly known as EnergyCo, our third business in Texas is Optim Energy, a power producer with highly efficient natural gas- and coal-burning facilities near Houston and Dallas. Jointly owned by PNM Resources and Cascade Investment, L.L.C., Optim Energy suffered through a slowing economy and lower natural gas prices that depressed power prices and limited sales revenues throughout the Texas market. We are confident that when wholesale power prices in Texas return to normal levels, Optim Energy's return-on-investment will be more favorable. In the meantime, Optim Energy's generation facilities are well positioned in the high-demand Houston and North zones of the Electric Reliability Council of Texas market and poised to deliver strong, long-term value to PNM Resources and our shareholders.

⁽¹⁾ Ongoing earnings are adjusted to exclude the impact of nonrecurring items and net unrealized mark-to-market gains and losses on economic hedges. Ongoing earnings also include discontinued operations.

⁽²⁾ For a complete reconciliation of ongoing earnings per diluted share to Generally Accepted Accounting Principles (GAAP) earnings per share see footnote (3) of the investor highlights table on the inside front cover.

IMPLEMENTING OUR PLAN

"...we strongly believe that the next two years will prove that our four initiatives put us on the right path for success." Those were words I wrote to you, our shareholders, in last year's annual report. A year later, the prediction is bearing fruit as we enter 2009. We made significant strides in 2008 by implementing our action plans and we will remain committed to seeing through additional strategic projects designed to restore long-term shareholder value. In the coming months, we will focus on executing a series of plans that expand upon our original initiatives. During the next year, we will:

- *Work to achieve successful outcomes in the PNM and TNMP rate cases.* I've said numerous times that restoring PNM to financial health and ensuring TNMP's well-being will take time and appropriate regulatory treatment. We have redeployed key personnel to focus on our regulatory initiatives and have appointed new and experienced leadership in that arena. Agreements reached with key parties on several major issues demonstrate our recent regulatory achievements. By the time this annual report is published, New Mexico regulators will be considering a stipulation that would allow PNM to increase base electric rates by \$77.3 million.
- *Generate profits at First Choice Power.* Much has been done to alleviate an onerous framework in Texas' competitive market. While more work needs to be completed, we believe First Choice Power has the right personnel and strategy in place to return to the strong performance it demonstrated in 2005 through 2007.
- *Maintain growth in Optim Energy.* Optim Energy will not wait for the recession to end to deliver strong performance. As economic conditions continue to depress power prices in ERCOT, Optim Energy has initiated plans to maximize power sales from its generation fleet and further improve plant efficiency.
- *Focus on lean operations.* For years, the entire corporation has been in a mode of controlling costs and finding ways to run our businesses with greater efficiency. While we remain committed to controlling costs and increasing value, our efforts will never come at the expense of service to our customers. As we continue our efforts to defray increased expenses, we will look for ways that also allow us to maintain our top-quartile status in electric transmission and distribution system reliability.

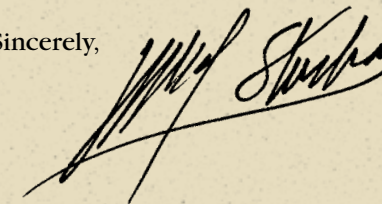
ACKNOWLEDGMENTS

In 2008, we added more breadth to our experienced board of directors when Donald K. Schwanz, retired chairman and CEO of CTS Corporation, joined the board in late-July. A former Honeywell executive, Don brings a wealth of business leadership and experience managing publicly traded companies.

Finally, I want to acknowledge and thank our employees who worked tirelessly throughout 2008 to provide quality service to our customers while also ensuring the sale of PNM's gas operations was seamless. The sale was a crucial part of PNM Resources' strategy and a necessary step to restore financial health to the PNM utility. Thank you.

Clearly, much work has to be done in order to restore PNM Resources' shareholder value. Our management team is committed to seeing that work through in the months to come. I sincerely appreciate your support of PNM Resources.

Sincerely,



Jeff Sterba
Chairman & CEO



environmental efforts

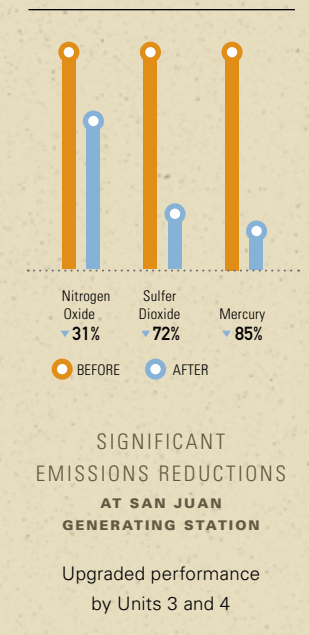
Five years ago we set aggressive goals to reduce PNM Resources' impact on the New Mexico environment. We launched initiatives designed to reduce emissions, cut waste streams and lower the company's use of freshwater. By nearly all accounts, we believe we measured up to the task.

The backbone of PNM's generating fleet, the San Juan Generating Station, led the way in our efforts to reduce emissions. By the end of 2008, three of four units had undergone massive environmental overhauls and work on the fourth unit is to be completed about the same time as this annual report is delivered to shareholders. This extensive work on the entire plant, totaling more than \$300 million, helped to significantly reduce the company's system-wide emissions of NO_x and SO₂, and lower particulate matter. Through a state-of-the-art system, San Juan expects to achieve nearly 90 percent mercury removal from its flue gas.

Sustainability is a business model that balances PNM Resources' triple bottom line — economic, social and environmental objectives — in all business decisions. That is why for the past two years PNM Resources has been an active member of the U.S. Climate Action Partnership — an unprecedented alliance of major American businesses and leading environmental organizations that has called for the federal government to quickly enact strong national legislation to achieve significant reductions of greenhouse gas emissions. When legislation is passed to address greenhouse gases, PNM Resources will be well positioned, thanks to our successful corporatewide initiatives to reduce our impact on the environment and our work with USCAP.

Additionally, as more than 400 megawatts of generation resources were added to PNM Resources' portfolio since 2002, the company's use of freshwater per megawatt-hour has been reduced. As a whole, today's 2,700-megawatt generation fleet uses 10 percent less freshwater per megawatt-hour than the 2002 fleet average. While this was short of our goal of a 15-percent to 20-percent reduction, the efforts resulted in considerable lower water usage. A companywide goal to reduce waste streams by 15 percent was achieved, as was our goal to be a leader in renewable energy. The National Renewable Energy Laboratory ranked PNM's Sky Blue® green power program as tenth best in the nation out of more than 300 similar utilities for the level of our green power sales. In addition, our customer-owned photovoltaic initiative has seen spectacular growth in both the number of participants and installed kilowatts — about an 80 percent increase in both categories since 2006.

Read more about PNM Resources' commitment to Economic Vitality, Social Responsibility and Environmental Stewardship, along with new three-year environmental goals, in our 2007–2008 Sustainability Report.

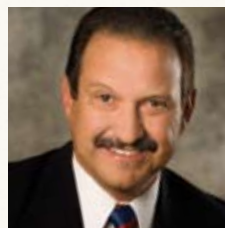


board of directors



JEFFRY E. STERBA

Chairman and CEO of PNM Resources, age 54. Director since 2000.



ADELMO E. ARCHULETA

President and Chief Executive Officer of Molzen-Corbin & Associates, age 58. Director since 2003. Committees: Audit and Ethics, Public Policy and Sustainability (Chair).



JULIE A. DOBSON

Chairman of TeleBright Corporation, age 52. Director since 2002. Committees: Audit and Ethics (Chair), Board Governance and Human Resources.



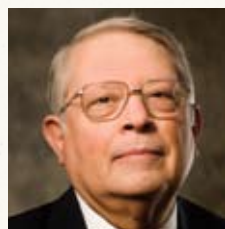
WOODY L. HUNT

CEO of Hunt Building Co., Ltd., and Affiliated Companies, age 63. Director since 2005. Committees: Finance (Chair), Audit and Ethics.



ROBERT R. NORDHAUS

Attorney with Van Ness Feldman, age 72. Director since 2007. Committees: Finance, Public Policy and Sustainability.



MANUEL T. PACHECO PH.D.

President Emeritus, University of Missouri System, age 67. Director since 2001. Committees: Audit and Ethics, Board Governance and Human Resources.



ROBERT M. PRICE

President of PSV Inc., age 78. Director since 1992. Committees: Finance, Audit and Ethics.



BONNIE S. REITZ

Owner/Founder InsideOut...Culture to Customer, age 56. Director since 2002. Committees: Board Governance and Human Resources (Chair) and Public Policy and Sustainability.



DONALD K. SCHWANZ

Retired Chairman and CEO of CTS Corporation, age 65. Director since 2008. Committees: Finance, Public Policy and Sustainability.



JOAN B. WOODARD PH.D.

Executive Vice President and Deputy Director of Integrated Technologies and Systems for Sandia National Laboratories, age 56. Director since 2003. Committees: Finance, Board Governance and Human Resources.

THE COMPANY

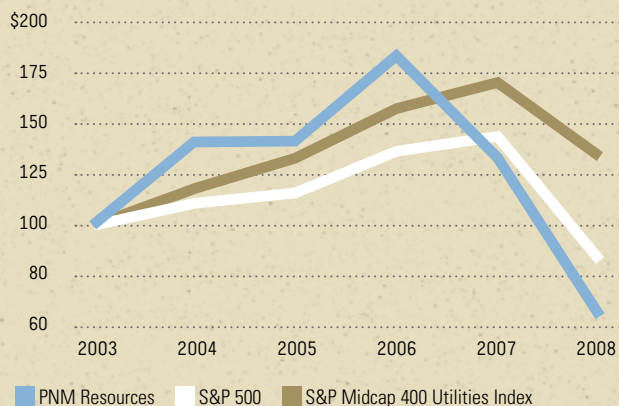
PNM RESOURCES INC. AND SUBSIDIARIES

We are an investor-owned holding company of regulated and unregulated energy and energy-related companies and were incorporated in the State of New Mexico on March 3, 2000. Company management regularly reviews operating results of our primary subsidiaries, which are Public Service Company of New Mexico, Texas-New Mexico Power Company, and First Choice Power, L.P. PNM is an integrated public utility with regulated operations primarily engaged in the generation, transmission and distribution of electricity. On January 30, 2009, PNM sold its natural gas operations. PNM operations also include the generation and sale of electricity into the wholesale market. TNMP is a regulated utility in Texas that provides regulated transmission and distribution services. First Choice Power is a retail electric provider operating in the competitive, unregulated electricity market in Texas. The company also owns a 50-percent share of Optim Energy, formerly EnergyCo, LLC. The other 50-percent is owned by a subsidiary of Cascade Investment, L.L.C. Optim Energy provides energy and energy services to expanding markets throughout the areas of Texas covered by ERCOT.

STOCK PERFORMANCE

The following graph assumes that \$100 was invested on Dec. 31, 2003, in PNM Resources common stock, the S&P 500 Stock Index and the S&P Midcap 400 Utilities Index, and that all dividends were reinvested.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN



	2003	2004	2005	2006	2007	2008
PNM Resources	\$100	\$138	\$138	\$180	\$130	\$65
S&P 500 Index	100	111	116	134	142	90
S&P Midcap 400 Utilities Index	100	118	130	158	169	135

Data Source: Bloomberg. Historical performance does not necessarily predict future results. PNM Resources' common stock is traded on the NYSE.

On June 9, 2008, the Company submitted the required annual written certification to the NYSE to comply with Section 303A.12(a) of the NYSE Listed Company Manual. There were no qualifications to the certification. In addition, the Company has filed with the SEC, as exhibits to its Form 10-K filed on March 2, 2009, the Sarbanes-Oxley Act Section 302 certifications regarding the quality of the Company's public disclosure.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Any statements made herein about future operating results or other future events are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these forward-looking statements. A discussion of factors that could cause actual results or events to differ is contained in the section entitled "Disclosure Regarding Forward Looking Statements" in the attached Form 10-K for the year ended December 31, 2008.

SHAREHOLDER INFORMATION

2009 ANNUAL MEETING

The 2009 Annual Meeting of Stockholders will be at 9 a.m. (MDT) on May 19, 2009, at the South Broadway Cultural Center, 1025 Broadway SE, Albuquerque, N.M. Our Notice of Internet Availability of Proxy Materials for the Annual Meeting will be mailed on or about April 8, 2009.

TRANSFER AGENT AND REGISTRAR

BNY Mellon Shareowner Services
PO Box 358015
Pittsburgh, PA 15252-8015
(877) 663-7775
www.bnymellon.com/shareowner

DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

PNM Resources offers a dividend reinvestment and direct stock purchase plan as a service to both new investors and current shareholders. In addition to full or partial reinvestment of dividends, the PNM Resources Direct Plan gives shareholders the opportunity to make direct cash investments. More information about the plan and enrollment forms are available through BNY Mellon Shareowner Services.

SECURITIES INFORMATION

NYSE Listed
Stock Symbol: PNM
Common shareholders of record: 12,945 (as of Feb. 20, 2009)
Newspaper listing: PNM Res

REPORTS AND PUBLICATIONS

Copies of the company's Form 10-K (annual report) and Form 10-Q (quarterly report) to the Securities and Exchange Commission (SEC), proxy statement, all news releases, up-to-date stock quotes, quarterly earnings results and other corporate literature are available free upon request by accessing the information at PNMResources.com, or by calling (800) 545-4425 or by writing to Investor Relations.

CONTACT INFORMATION

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