



Pat Vincent-Collawn

¹On a GAAP (generally accepted accounting principles) basis, the company reported 2016 earnings of \$1.46 per diluted share, compared with \$0.20 per diluted share in 2015. The adjustments to 2016 GAAP earnings per diluted share to 2016 ongoing earnings per diluted share were: mark-to-market impact of economic hedges, \$0.01; net change in unrealized impairments for certain securities, \$0.01; regulatory disallowances and restructuring costs, \$0.09; pension expense related to previously disposed of gas distribution business, \$0.03; process improvement initiatives, \$0.03; building consolidation, \$0.01; and New Mexico corporate income tax rate change, \$0.01. The adjustments to 2015 GAAP earnings per diluted share to 2015 ongoing earnings per diluted share were: mark-to-market impact of economic hedges, \$0.04; net change in unrealized impairments for certain securities, \$0.03; regulatory disallowances and restructuring costs, \$1.26; settlement of regulatory proceeding, (\$0.01); and federal and state tax credit, net operating loss and charitable contribution impairments, \$0.12.

Dear Valued Shareholder,

In 2016, PNM Resources delivered solid financial and operational results and continued to create value for our customers and shareholders. The ongoing success of our company is rooted in our long tradition of service to our communities, our dedicated and talented employees and our ability to remain focused on executing our strategic plan in a changing environment.

2016 HEADLINES

In September, PNM received an order in the company’s 2015 rate review filing with the New Mexico Public Regulation Commission (NMPRC), and PNM has implemented the increase that was approved. In addition, PNM appealed parts of the order to the New Mexico Supreme Court in an effort to obtain a more appropriate amount of recovery for certain of its significant investments. The appeal is pending and will take a number of months before it is resolved.

PNM filed an application for a new rate review with the NMPRC in December, 2016. The filing was timed to coincide with our NMPRC-approved plan to shut down two units at San Juan Generating Station (SJGS) at the end of this year so that customers’ bills reflect the resources used to serve them. We are working hard to reach a settlement on key elements in the case. The PNM proposal will be thoroughly examined during a public hearing at the NMPRC scheduled to take place this summer, with a final order expected later in the year.

TNMP also had a successful year with several important achievements that will help improve service to customers and continue to build value, most notably in the area of expanding infrastructure. While the decline in the oil and gas industry has negatively impacted some areas of the country, there is still significant growth taking place and TNMP is working diligently to keep up with demand.

DIVIDEND INCREASE

In December 2016, the PNM Resources’ Board of Directors voted to increase the company’s annual dividend payment by \$0.09 to an indicated annual rate of \$0.97 per share of common stock. This is an increase of ten percent, and the dividend remains consistent with the company’s target to pay out 50 to 60 percent of annual ongoing earnings.

For the year 2016, ongoing earnings totaled \$1.65 per diluted share, compared with \$1.64 per diluted share in 2015.¹

SERVING OUR CUSTOMERS

At the core of our business is service-working to deliver reliable, affordable and environmentally responsible energy. Service is in our company’s DNA, and it is in the heart of every PNM Resources employee. We strive to always provide an excellent customer experience.

Despite a challenging environment, PNM efforts to keep the customer as the primary focus of everything we do are resonating. In 2016, PNM performed well in its Research and Polling survey results in all major areas including customer satisfaction. These numbers are encouraging, but we know that no matter how much we improve, we can still do better.



TNMP is rebuilding and upgrading transmission capabilities over a large portion of its Northern West Texas transmission system to keep pace with the expanding oil economy in the Permian Basin.



The 2017 PNM Integrated Resource Plan will play an important role in determining the future of the San Juan Generating Station near Farmington, NM.

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. Additional information regarding forward-looking statements and factors that could cause actual results or events to differ is included on page 4 of the 2016 Letter to Shareholders.

One of the most important ways we serve our customers is by delivering reliable energy. I'm very pleased to say that in 2016, for the second consecutive year PNM was recognized with a ReliabilityOne Award for outstanding Midsized Utility. It is also important to recognize that TNMP maintained its excellent record of reliability despite another year of extreme weather throughout our Texas service territory.

RESOURCE PLANNING FOR A STRONG ENERGY FUTURE

We are currently working on our Integrated Resource Plan (IRP), which we are required to submit to the NMPRC every three years. Through the IRP process, we analyze the various energy supply options for the future and identify a resource portfolio that will most effectively balance reliability, affordability, and environmental responsibility. Beginning last year, we have hosted a series of open meetings to educate the public about the resource planning process, discuss the many different resource options, and seek public input regarding energy generation. The 2017 plan must be filed with the NMPRC by July 3.

The input we receive over the course of the year-long planning process and the in-depth analysis performed helps to shape our decisions about how best to deliver energy to our customers in the future. The IRP process is just one of the ways we continuously evaluate and align our resources and business model to stay responsive to market forces, environmental requirements and a fluctuating economy. As we evaluate plans, we keep at the forefront of our minds that the company has an obligation to provide reliable, low cost power to customers.

The 2017 PNM IRP will be a little different than others and will present two scenarios. The plan will identify the most cost-effective resource portfolios both with and without the SJGS after 2022, when the current coal supply and ownership agreements expire. These two scenarios are a component of the 2015 BART settlement agreement that also calls for the retirement of two of the four SJGS units by the end of this year. PNM is still on track to close the two units by Dec. 31.

While there remains a lot of work to be done, a preliminary analysis of the new IRP data shows that retiring the remaining two units at SJGS in 2022 could provide long-term benefits to customers.

I want to stress that this is only a preliminary finding. We will hold additional public advisory meetings over the next several months and further analysis will be conducted before we file the IRP. Before any actions could be taken regarding SJGS, there are many legal, regulatory and other processes that would have to take place, including discussion with the other owners. An ultimate determination about the future of SJGS will be made through a separate regulatory process with the NMPRC.

SUSTAINABILITY

At PNM Resources, sustainability encompasses a broad range of important actions. It starts with our responsibility to deliver safe, reliable, affordable and environmentally responsible energy to our customers, and extends to areas that include economic development, improving the quality of life, conservation and resource protection, corporate governance, and efficiency.

In response to shareholder requests for additional transparency regarding the company's environmental and other sustainability efforts, in September we launched a dedicated sustainability portal on our corporate website www.PNMResources.com. The site provides the key sustainability information related to the operations of PNM Resources' utilities- PNM in New Mexico and TNMP in Texas. The information is compiled under four main headings: Environment, Social, Economic, and Governance.



PNM Resources helped land a new Facebook data center for New Mexico. Two Albuquerque solar companies will build solar generation similar to this PNM facility to power the data center, for which Facebook is requiring 100 percent renewable equivalent energy.

I want to emphasize that our commitment to environmental stewardship extends well beyond utilizing increasingly cleaner energy resources and meeting or exceeding environmental regulations. Across the company, our efforts include wildlife protection, conserving precious water resources and maintaining our infrastructure in ways that minimize the impact on the environment.

ECONOMIC DEVELOPMENT

Our sustainability programs include supporting economic vitality and growth in the communities we serve. We are actively engaged with state and local officials and organizations working to retain and recruit businesses and create jobs.

We are proud to be part of the team that convinced Facebook to locate a new data center in Los Lunas, a small community in central New Mexico. This is a unique, “first-of-its-kind” project for PNM. Creating a plan to serve the data center with 100 percent renewable equivalent energy while ensuring 24-7 backup power required innovation and forward-thinking from our engineers, rate designers, regulatory team, and others.

Through a subsidiary, PNM Resources awarded the \$37 million contract for construction of the data center’s first three solar generation facilities to a New Mexico company, Affordable Solar. This will enable Affordable Solar to hire 40 new full-time employees, in addition to the hundreds of construction jobs it will require. Affordable Solar will partner on the project with Array Technologies, another local company, which is a global leader in solar tracking technology.

LOOKING AHEAD

This is an exciting time for our industry, with unique opportunities and challenges arising at both the local and national levels. The new administration in Washington, D.C. has signaled a significant shift in national energy policy and regulation, and there are many questions regarding how important issues will be handled going forward. Whatever may happen, I’m pleased to say that our company is well positioned for the future and will continue to build on the strong momentum we have established in recent years.

2017 will be a special year as we commemorate PNM’s 100th birthday, a significant milestone for the company and our customers. For a century PNM has been powering progress in New Mexico, helping individuals and companies to achieve their dreams. We are celebrating by recognizing the achievements of the men and women of PNM who through the decades built a strong legacy of reliability, customer service and community support. And as we begin a “New Century of Service,” we are reaffirming our commitment to building a strong and vibrant future for our customers and the company.

Thank you for your continued support and for your investment in PNM Resources.

Sincerely,



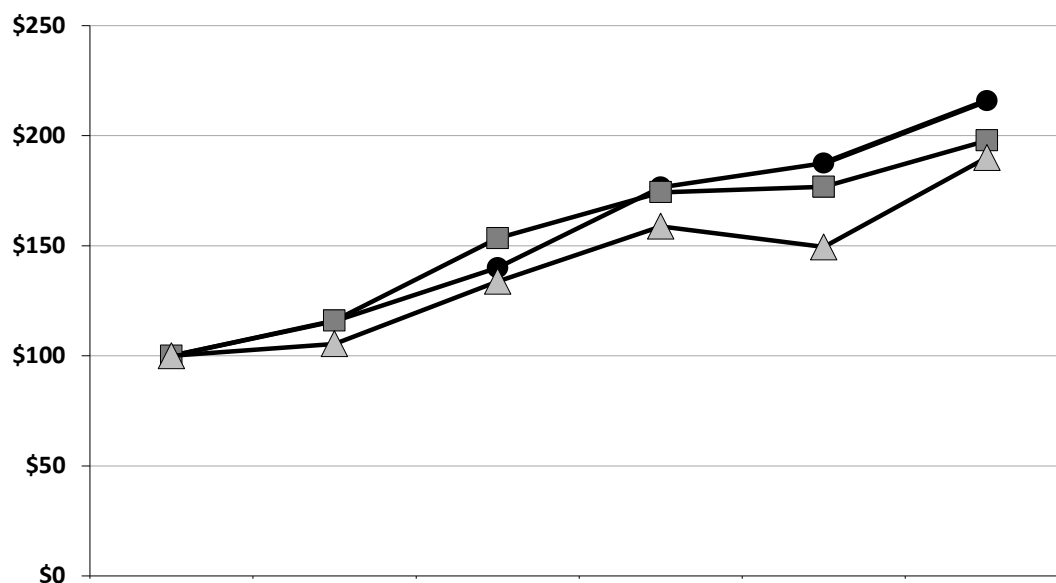
Pat Vincent-Collawn
Chairman, President, and CEO



PNM RESOURCES, INC. AND SUBSIDIARIES

PNM Resources is an investor-owned holding company of two electric utilities, PNM and TNMP. PNM is a regulated utility in New Mexico with operations primarily engaged in the generation, transmission and distribution of electricity. TNMP is a regulated utility operating in Texas, providing transmission and distribution services.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN



	2011	2012	2013	2014	2015	2016
● PNM Resources	\$100.00	\$115.77	\$139.97	\$176.60	\$187.48	\$215.85
■ S&P 500 Index	\$100.00	\$115.93	\$153.39	\$174.30	\$176.76	\$197.77
▲ S&P 400 MidCap Utilities Index	\$100.00	\$105.42	\$133.77	\$158.80	\$149.44	\$190.05

Data Source: Bloomberg.

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

STOCK PERFORMANCE

The graph above assumes that \$100 was invested on Dec. 31, 2011, 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.

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Statements made in the letter to shareholders that relate to future events or PNM Resources, Inc.'s ("PNMR"), Public Service Company of New Mexico's ("PNM"), or Texas-New Mexico Power Company's ("TNMP") (collectively, the "Company") expectations, projections, estimates, intentions, goals, targets, and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Readers are cautioned that all forward-looking statements are based upon current expectations and estimates. PNMR, PNM, and TNMP assume no obligation to update this information. Because actual results may differ materially from those expressed or implied by these forward-looking statements, PNMR, PNM, and TNMP caution readers not to place undue reliance on these statements. PNMR's, PNM's, and TNMP's business, financial condition, cash flow, and operating results are influenced by many factors, which are often beyond their control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. For a discussion of risk factors and other important factors affecting forward-looking statements, please see the Company's Form 10-K and Form 10-Q filings with the Securities and Exchange Commission, which factors are specifically incorporated by reference herein.