



**Patricia K. Collawn**

*PNM Resources' common stock was among the best performers in the industry in 2011, appreciating about 40 percent, as the market recognized our success in improving our financial footing, making good on our promises and continuing to build on the previous years' successes.*

Dear Shareholders,

By now you've noticed your 2011 PNM Resources annual Letter to Shareholders is quite a bit different than what you've received in the past. Gone are the pages that prefaced our Form 10-K. During the past several years, we've worked diligently to reduce costs and streamline nearly all facets of our operations. This abbreviated letter is just one tangible example of how we are working more efficiently today and returning additional value to our customers and shareholders.

The past year was filled with many changes and challenges that required an unprecedented level of focus and hard work. From the constructive outcomes on the regulatory fronts in both New Mexico and Texas to the complicated and time-consuming efforts needed to successfully exit from the competitive businesses, our employees never wavered and demonstrated their commitment to our customers and shareholders.

In last year's Letter to Shareholders, we outlined three strategic goals that served as our underlying principles and drove our business decisions. The first was to *earn our authorized return on our regulated businesses*. Through streamlining our operations, finding new ways to work more efficiently and seeking fair recovery of our costs, we have made significant strides in this area. TNMP, our regulated transmission and distribution electric utility in Texas, is earning its allowed return on equity. And by nearly every measure, PNM – New Mexico's largest electric utility – strengthened its financial performance and is well positioned to earn its allowed return on retail rate base in 2012.

Our second goal – *maximize the value of our competitive businesses* – was achieved when we exited our ownership interest in Optim Energy and sold First Choice Power. The proceeds of the First Choice Power sale were used to reduce our share count through the repurchase of PNM Resources preferred and common stock. We also reduced debt by repurchasing \$50 million of high-interest notes. The exit of the competitive businesses resulted in a return to a regulated business profile with inherently less risk and a more predictable, sustainable earnings trajectory.

While our final goal – *return to solid investment grade* – remains a work in progress, we are well within reach of achieving this objective. Last fall, credit rating agencies recognized your company's improved financial strength and issued improved ratings for PNM Resources, PNM and TNMP. Debt at both utilities now carries investment-grade credit ratings, which enhances our ability to access the capital markets and secure debt on more favorable terms.

## **2011 FINANCIAL REVIEW**

Significant progress was made on numerous fronts to improve shareholder value, as demonstrated by our financial results. For 2011, consolidated ongoing earnings were \$1.08 per diluted share<sup>1</sup>, compared with \$0.87 per diluted share<sup>1</sup> in 2010. On a GAAP (generally accepted accounting principles) basis, the company reported earnings of \$1.96 per diluted share, compared with a loss of \$0.49 per diluted share. GAAP earnings in 2011 include gains of \$1.08 per diluted share related to the sale of First Choice Power. 2010 GAAP losses reflect the Optim Energy investment impairment charge of \$1.24 per diluted share.

PNM Resources' common stock was a strong performer in 2011, appreciating about 40 percent. Clearly, the market recognized our success in improving our financial footing, making good on our promises and continuing to build on the previous years' successes.

## 2012 AND BEYOND

In last year's annual report, I said the journey to reach our financial goals and strengthen shareholder value began in 2007. For the past four years, we've held a magnifying glass over the areas in need of improvement. And, our focus and persistence has paid off with solid results demonstrated in our earnings and returns.

Moving forward, we'll continue to focus on the New Mexico regulatory arena on several fronts. First, we will pursue regulatory recovery of environmental emission mandates and renewable energy resource standards. Second, we'll address rulemaking that would allow PNM to recover costs on a future-test-year basis. And third, we will continue to seek fair recovery of federally regulated transmission and generation sales costs.

In Texas, regulators have instituted recovery mechanisms designed to encourage infrastructure investment at the transmission and distribution levels. TNMP will continue to invest in its system to support one of the nation's best economies, while seeking recovery accordingly. As always, PNM and TNMP will have high electric reliability expectations, and PNM's operations will have the added goal of ensuring solid power plant performance.

In early 2012, we enhanced value to shareholders by increasing your dividend payment. PNM Resources common stock now pays an indicated annual rate of \$0.58 per share, an increase of 16 percent. The increased payment demonstrates the Board of Directors' confidence in our earnings potential and its commitment to our long-term payout target of 50 to 60 percent of ongoing earnings. We will work toward providing a top-quartile average annual total return to shareholders of 10 to 13 percent over a five-year time period. Total return is composed of earnings-per-share growth and dividend yield.

For the past several years, we have remained steadfast in working to restore shareholder value and establish a new foundation for sustainable financial growth. As always, we will continue to control costs corporate wide and work efficiently. We are committed to enhancing customer service, stakeholder relationships and giving back to the communities we serve. On behalf of the employees at PNM Resources, thank you for your confidence and support.

Sincerely,



**Patricia K. Collawn**  
*Chairman, President and CEO*

### **Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.**

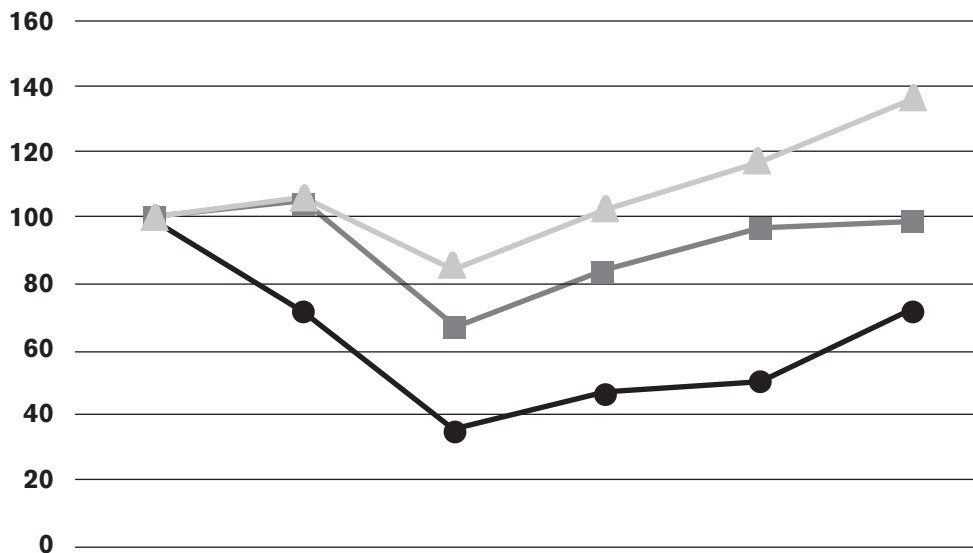
Any statements made herein about future operating results or other future events are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these forward-looking statements. A discussion of factors that could cause actual results or events to differ is included on page 4 of the 2011 Letter to Shareholders.

<sup>1</sup> The adjustments to 2011 GAAP earnings per diluted share to 2011 ongoing earnings per diluted share were: mark-to-market impact of economic hedges, \$(0.06); net change in unrealized impairments of Nuclear Decommissioning Trusts securities, \$0.02; process improvement initiatives, \$0.05; regulatory disallowance, \$0.15; strategic alternatives – competitive businesses, \$0.03; New Mexico gross receipts tax adjustments, \$0.02; 2010 energy efficiency, \$(0.02); gain on sale of First Choice Power, \$(1.08); loss on reacquired debt, \$0.06; and equity in net loss of Optim Energy, \$(0.05). The adjustments to 2010 GAAP earnings per diluted share to 2010 ongoing earnings per diluted share were: mark-to-market impact of economic hedges, \$0.19; write-down of emission allowances, \$0.01; impairment of equity investment in Optim Energy, \$1.24; net change in unrealized impairments of NDT securities, \$(0.02); and disposition of litigation, \$(0.06).

## 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 SHAREHOLDER RETURN



	2006	2007	2008	2009	2010	2011
● PNM Resources	100	71.90	36.17	47.18	50.43	72.54
■ S&P 500 Index	100	105.48	66.93	84.28	96.78	98.81
▲ S&P 400 Utilities Index	100	106.39	85.13	102.47	116.70	135.87

Data Source: Bloomberg.

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

## STOCK PERFORMANCE

The graph above assumes that \$100 was invested on Dec. 31, 2006, 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.

### **Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995**

Statements made in the Letter to Shareholders that relate to future events or PNM Resources' ("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. These factors include: the ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions; the ability of the Company to successfully forecast and manage its operating and capital expenditures; state and federal regulatory, legislative, and judicial decisions and actions on ratemaking matters; state and federal regulation or legislation relating to environmental matters, including the resultant impacts on the operations and economic viability of PNM's generating plants; the risk that recently enacted reliability standards regarding available transmission capacity may negatively impact the operation of PNM's transmission system; the performance of generating units, transmission systems, and distribution systems, which could be negatively affected by a number of significant operational issues; variability of prices and volatility and liquidity in the wholesale power and natural gas markets; changes in price and availability of fuel and water supplies; uncertainties surrounding the mine fire incident at the mine supplying coal to San Juan Generating Station; uncertainty surrounding the status of PNM's participation in jointly owned generation projects resulting from the scheduled expiration of the operational documents for the projects; the risks associated with completion of generation, transmission, distribution, and other projects; regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties; uncertainty regarding the requirements and related costs of decommissioning power plants and coal mines supplying certain power plants, as well as the ability to recover decommissioning costs from customers; the impacts on the electricity usage of the Company's customers due to performance of state, regional, and national economies and mandatory energy efficiency measures, weather, seasonality, and other changes in supply and demand; the Company's ability to access the financial markets, including disruptions in the credit markets, actions by ratings agencies, and fluctuations in interest rates; the potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions; the impacts of decreases in the values of marketable equity securities maintained to provide for nuclear decommissioning and pension and other postretirement benefits; the effectiveness of risk management and commodity risk transactions; the outcome of legal proceedings, including the extent of insurance coverage; and changes in applicable accounting principles.