2012 LETTER TO SHAREHOLDERS FROM THE CHAIRMAN, PRESIDENT AND CEO

Pat Vincent-Collawn

Dear Shareholders,

Your investment in our company is appreciated because it helps provide an essential service that businesses and households know they can count on. It also allows us to adapt to a significantly changing energy landscape with increased solar and wind-generated electricity and a growing number of environmental regulations.

Our company, in turn, must rigorously focus on the basics of running our business well to use your investment to meet the needs of our customers while providing you with a reasonable return.

That focus on the basics guided our business in 2012. In particular, we set our sights on three primary goals. We sought to *earn our authorized returns for our regulated businesses, we aimed to continue to improve our credit ratings,* and we worked to *provide a top quartile total return* to you, our shareholder. I am pleased to report that we had a great year for all three measures.

ABOVE-AVERAGE DIVIDEND GROWTH

Our Board of Directors demonstrated its long-term confidence in the company in February 2013 by approving a 14 percent increase to our dividend. The board moved its annual dividend review forward to December to consider a similar increase that would push the dividend into our targeted payout range of 50 to 60 percent of ongoing earnings by year-end. The result is two consecutive years of dividend growth that is above the average for our industry.

The ability to increase our dividend was driven by strong financial performance. Consolidated ongoing earnings in 2012 were in the upper range of guidance we had provided to investors, coming in at $1.31 per diluted share, compared to $1.08 per diluted share in 2011.[1]

On a GAAP (generally accepted accounting principles) basis, the company reported earnings of $1.31 per diluted share, compared with $1.96 per diluted share, in 2011. The 2011 results included the sale of First Choice Power.

For two consecutive years, PNM Resources has had dividend growth that is above the average for our industry. Our targeted payout range is 50 to 60 percent of ongoing earnings, which we expect to achieve by year-end 2013.

FOCUSING ON THE BASICS OF RUNNING OUR BUSINESS WELL

As mentioned at the beginning of this letter, our industry is changing. We've worked hard to meet our customers' needs for superior reliability today while also taking steps that will serve us well in the future. A foundation of that effort is the priority we place on managing operating and capital costs. Employees throughout the organization are working to run our business more efficiently and dedicated more than 10,000 hours to process improvement efforts in 2012.

In part because of that focus, this past year marked the culmination of a multi-year effort to earn our authorized returns for TNMP and PNM. Last year, I reported to you that we had achieved that milestone with TNMP. This year, I can report that we are earning our allowed return for our retail business at PNM as well. Partly in recognition of this and their financial health, both utilities continue to be rated investment grade by the rating agencies.

We also have worked to make timely and effective regulatory filings at the state and federal level. One strategy that has helped make these filings more successful is our work to include stakeholder input. Our approved plan for renewable energy resources in New Mexico for 2013 and beyond was an excellent example of that ongoing effort to work productively with our stakeholders.

FOCUS FOR 2013 AND BEYOND

We expect a significant amount of regulatory activity in 2013 related to our coal-fired San Juan Generating Station. A big change affecting the industry is the growing amount of regulation for coal-produced electricity. Coal has been and continues to be an important part of our fuel portfolio and has helped in our efforts to keep rates affordable. We will need to be far-sighted in our work to meet these regulations while also keeping electricity affordable and reliable.

The most immediate regulation facing San Juan Generating Station is the regional haze rule of the Clean Air Act. We spent a large part of 2012 working with stakeholders to determine the most effective way to comply with the rule.

Our 2012 efforts led to a 2013 agreement among PNM, the U.S. Environmental Protection Agency and the N.M. Environment Department that we believe is superior on many fronts to the federal plan that prevailed at the time of the agreement. An EPA official has said the agreement is being held up as a model in other states of how collaboration should work.

The agreement would result in the retirement of two of the four units at San Juan by the end of 2017, and would require the installation of technology on the remaining two units by early 2016. Compared to the federal plan, the agreement has the advantage of greater reductions of greenhouse gases and other emissions that will likely be regulated in the near future. The new plan, for example, will reduce carbon dioxide from the entire plant by 50 percent over the federal plan. The alternative also will provide us with a more balanced fuel portfolio for our generation, which currently has about 56 percent of its energy from coal.

The agreement is just the beginning of a regulatory process that will likely take about two years and will require a number of state and federal approvals, starting with the New Mexico approval of a revised State Implementation Plan. In reflection of that, one 2013 priority will be to achieve a successful outcome in the New Mexico filing for a revised state plan.

In 2013, we also will continue to focus on strong electric reliability and power plant availability, cost control, and continued execution of our plan to deliver top quartile total return by 2016.

I appreciate the hard work and dedication of our employees who helped achieve our goals in 2012 and laid a solid foundation for the year ahead. Our company celebrated its 40th anniversary on the New York Stock Exchange in 2012, and I am gratified that such a milestone year was marked by a strong performance on many fronts.

Sincerely,

Pat Vincent-Collawn
Chairman, President & 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. Additional information regarding forward-looking statements and factors that could cause actual results or events to differ is included on page 4 of the 2012 Letter to Shareholders.

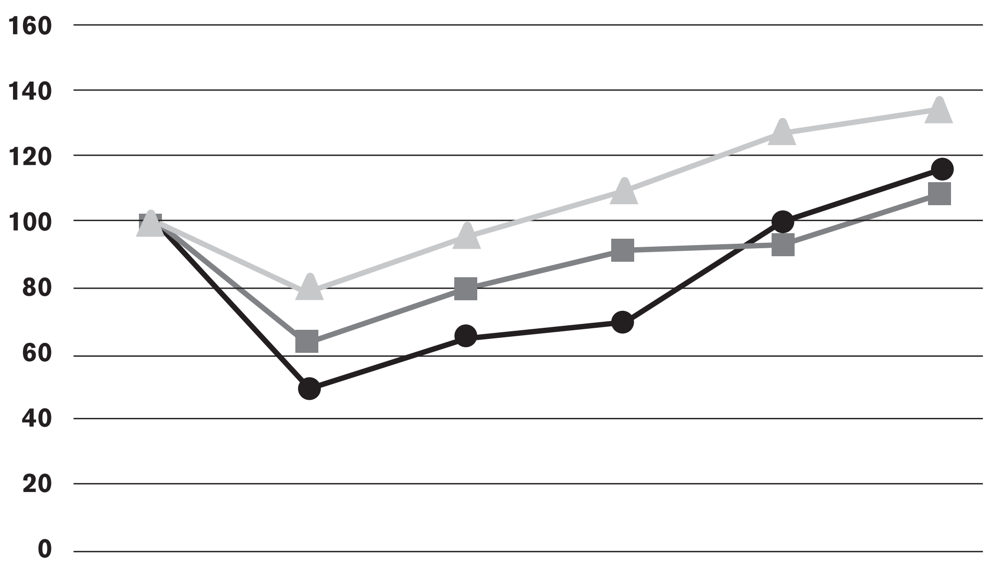
[1)] The adjustments to 2012 GAAP earnings per diluted share to 2012 ongoing earnings per diluted share were: building consolidation, $0.06; gain on sale of First Choice Power, $(0.01); mark-to-market impact of economic hedges, $(0.01); net change in unrealized impairments of Nuclear Decommissioning Trust securities, $(0.04); process improvement initiatives, $0.01; and TNMP 1999/2000 transmission rate settlement, $(0.01). 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).

PNM Resources®

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



	2007	2008	2009	2010	2011	2012
● PNM Resources	$100.00	$50.30	$65.62	$70.14	$100.90	$116.61
■ S&P 500 Index	$100.00	$63.45	$79.90	$91.74	$93.67	$108.55
▲ S&P 400 Utilities Index	$100.00	$80.02	$96.32	$109.69	$127.72	$134.56

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, 2007, 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' ("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 are specifically incorporated by reference herein.