



**Pat Vincent-Collawn**

*PNM has strengthened its commitment to supporting education and economic development, critical factors for creating economic growth.*

Dear Shareholder,

It's an exciting and challenging time to be part of the utility industry. Our business is changing, driven by new technology, evolving customer needs, and a common focus on protecting the environment. As a company, we embrace that change as an opportunity to create new value for our customers, our shareholders, and the communities we serve. At the same time, we're acutely aware that this is taking place as the economy is just beginning to recover. It is more important than ever for us to responsibly balance innovation and growth with affordability.

PNM Resources is working to lead the way into a future bright with cleaner, more efficient energy resources, while still delivering on our commitment to provide high quality service and financial results that consistently provide a strong return on your investment.

### **STRONG EARNINGS AND DIVIDEND GROWTH**

In December 2013, the Board of Directors unanimously voted to increase the dividend payment by 12 percent to an indicated annual rate of \$0.74 per share of common stock. This was the second above industry average dividend increase for the year, and an indication of the board's continued confidence in the Company's performance.

Consolidated ongoing earnings for 2013 came in at the top of the guidance range, ending at \$1.41 per diluted share, compared to the 2012 results of \$1.31 per diluted share<sup>1</sup>. It's also important to note that both PNM's retail operations and TNMP continue to earn their authorized returns, another top priority for the Company.

### **MANAGING SUCCESSFULLY IN A CHALLENGING ECONOMY**

During the last 12 months we received two notable credit rating upgrades. In April of 2013, Standard and Poor's issued an upgrade to PNM Resources and both utilities. In January of this year, Moody's likewise upgraded the credit ratings for all of our entities. It marks an important milestone for us, as PNM Resources, PNM, and TNMP are now all rated investment grade by both Moody's and Standard and Poor's. Among other benefits, this allows the Company to access financing at better rates, helping to keep customer costs low.

While PNM performed well in 2013, the Company continues to face headwinds from the sluggish New Mexico economy, especially in regard to load growth. In particular, the Albuquerque metropolitan area continues to lag the nation in economic recovery. There is no clear indication of when the local economy will rebound more strongly, and we continue to efficiently and effectively manage the business to minimize the impact of these uncertain conditions. We also believe that businesses can and should be part of the solution. At PNM, we've strengthened our commitment to supporting education so New Mexico can develop a workforce able to meet the needs of high-tech and high-wage businesses to build its economy. We're also actively involved in economic development. Through the PNM Resources Foundation we invest in job growth initiatives and support organizations that help small businesses, and as a company we buy and invest locally.

The economic picture is brighter in Texas, and TNMP saw consistent customer growth throughout 2013. The Company is working to improve infrastructure to meet increased demand, and we are optimistic the economy there will remain strong.

## 2014 – EXCITING OPPORTUNITIES, CONTINUING TO BUILD VALUE FOR CUSTOMERS & SHAREHOLDERS



This is a defining moment for energy in our country. Concerns about climate change, cyber and physical security, the push for energy efficiency, the growth of distributed generation and renewable resources, and aggressive federal policies toward power plant emissions – all impact how utilities do business, and how we plan for the future. One thing that hasn't changed is the need for safe, reliable and affordable power.

PNM Resources is well positioned to meet the challenges of the new energy frontier. We've been on the forefront of solar energy and storage with our first-in-the-nation Prosperity Energy Storage Project. PNM doubled its solar generation capacity in 2013 and plans to add more solar again this year. By 2015, PNM's generation from wind, solar and geothermal sources will produce enough electricity to power 136,000 average homes and reduce carbon dioxide emissions by 915,000 metric tons, the equivalent of taking 191,000 cars off the road for a year.

In 2014, we will continue our efforts to obtain approval for the Revised State Implementation Plan for the San Juan Generating Station, the most responsible path forward for our customers, the environment, and the Company. We are now working to receive final approval from the Environmental Protection Agency by September and from the New Mexico Public Regulation Commission by the end of the year. In addition, the Company has made initial filings regarding replacement generation, and we will continue efforts to identify the best combination of resources that will lead to a more diverse generation portfolio.

In Texas, TNMP is working to complete installation of smart meters throughout our service territory. We expect to have a new advanced outage management system in place this year that will help take advantage of the benefits of smart meters.

Finally, I want to reiterate our commitment to increasing customer satisfaction and providing the best possible service in everything we do. In January, as part of that effort, we launched the new PNM.com, redesigned from the ground up to provide our customers with improved access, more choices regarding their account, and increased control over how and when they communicate with the Company. It is an excellent platform that will evolve along with the needs of our customers and the services that we provide.

The Company's success is mainly the result of our employees—watching costs, identifying ways to become more efficient and effectively executing on projects. I want to take this opportunity to thank them for their hard work and dedication.

We're excited about today, and about the future, where reliable, affordable, and environmentally responsible energy delivered through a strong and secure power grid will be more important than ever before.

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

Sincerely,

Pat Vincent-Collawn  
Chairman, President, and CEO

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

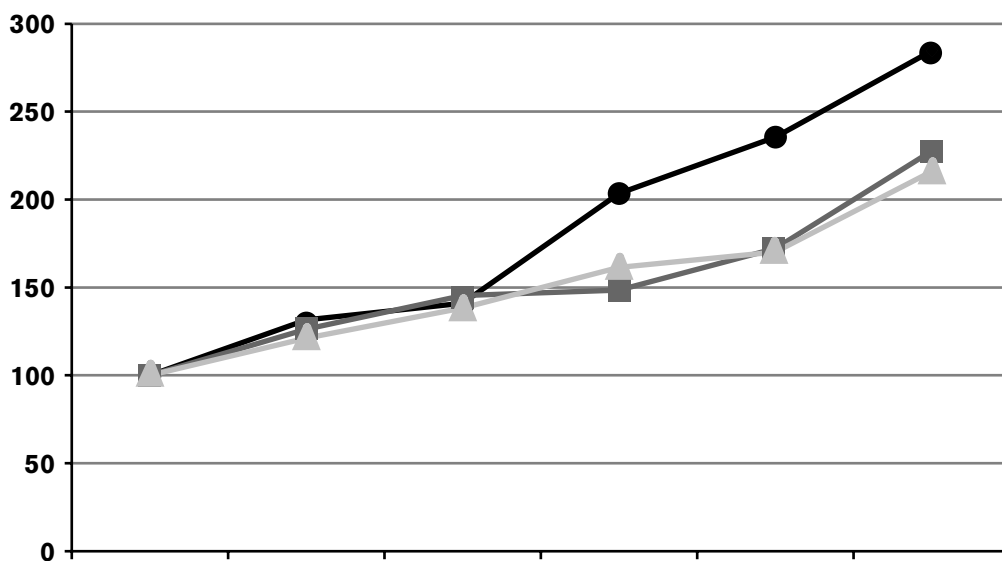
Any statements made herein about future operating results or other future events are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these forward looking statements. Additional information regarding forward-looking statements and factors that could cause actual results or events to differ is included on page 4 of the 2013 Letter to Shareholders.

<sup>1</sup> On a GAAP (generally accepted accounting principles) basis, the Company reported 2013 earnings of \$1.25 per diluted share, compared with \$1.31 per diluted share in 2012. The adjustments to 2013 GAAP earnings per diluted share to 2013 ongoing earnings per diluted share were: New Mexico corporate income tax rate change, \$0.02; mark-to-market impact of economic hedges, \$(0.01); net change in unrealized impairments of Nuclear Decommissioning Trust securities, \$(0.01); loss on reacquired debt, \$0.02; state tax credit impairment, \$0.05; and regulatory disallowance, \$0.09. 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).

## 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



	2008	2009	2010	2011	2012	2013
● PNM Resources	\$100.00	\$131.55	\$140.95	\$203.41	\$235.48	\$284.70
■ S&P 500 Index	\$100.00	\$126.37	\$145.36	\$148.44	\$172.08	\$227.69
▲ S&P 400 MidCap Utilities Index	\$100.00	\$121.10	\$138.35	\$161.46	\$170.20	\$215.97

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, 2008, 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 factors are specifically incorporated by reference herein.