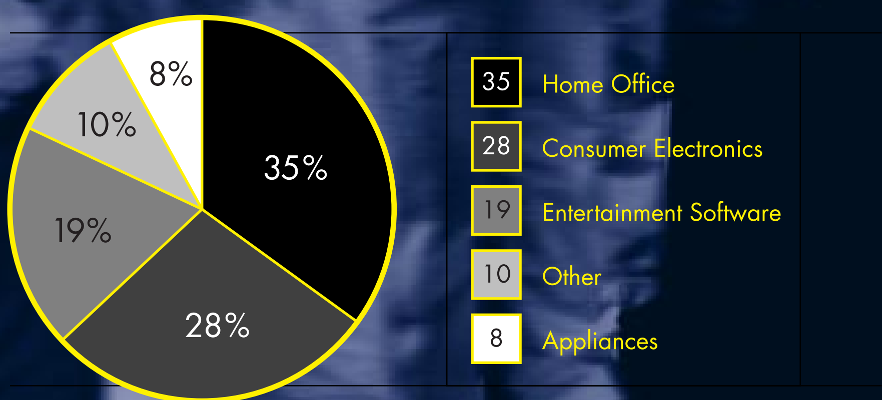
Innovate Accelerate

Best Buy Co., Inc. Fiscal 2000 Annual Report

Contents

Product Sales Mix



Product Sales Mix

WOW!

Another exciting year!

- Earnings rose 60%, to $347 million
- Revenues grew by more than 20% for the second consecutive year
- EVA® improved more than $100 million year over year
- Inducted into the S&P 500 Index in June 1999
- Rated 25th on *Business Week*'s performance ranking of S&P 500 companies
- Opened 47 new stores and introduced the small-market concept
- Digital products emerged to drive the industry
- Announced several strategic alliances and investments
- Recognized by *Fortune* magazine as one of the top 10 stock performers of the decade
- Our founder is named 1999's Master Entrepreneur of the Year by Ernst & Young and CNN

Best Buy Co., Inc., the nation's No.1 specialty retailer of name-brand consumer electronics, personal computers, entertainment software and appliances, has grown from one store in 1966 to more than 350 today. Quality products and services, competitive prices and dedicated salespeople have propelled Best Buy to fulfill its mission—to improve people's lives by making technology and entertainment products affordable and easy to use.

Best Buy's stock is traded on the New York Stock Exchange, symbol: BBY.

To Our Shareholders:

Since our inception 34 years ago, our Company has never been as prepared to compete successfully. We are more fully aligned than ever and proud of our performance in this past year.

Our net earnings improved 60%, to $347 million.

The digital revolution delivered exciting new products, enabling us to capitalize on our position as the fun and informative place to buy technology products and services.

We announced several strategic alliances and investments as the industry began to migrate toward partnerships to meet consumers' changing needs.

Best Buy was recognized as one of *Fortune* magazine's 10 best-performing stocks of the '90s.

As a recent inductee to the S&P 500 Index on June 29, 1999, we placed 25th on *Business Week*'s fourth annual performance ranking of companies in the S&P 500.

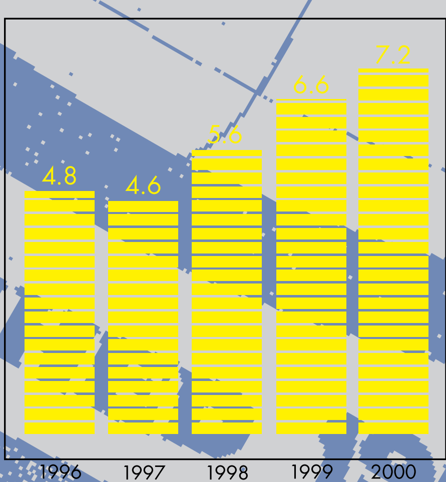
Strategies Successes

Record Financial Performance

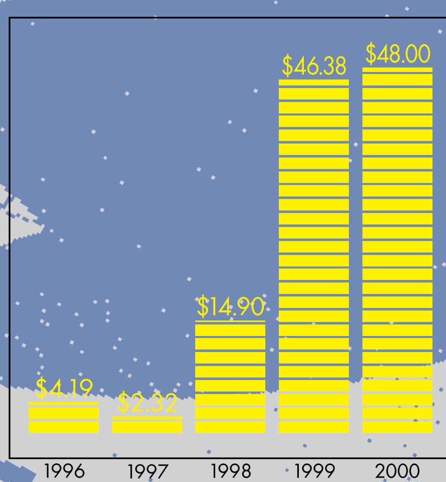
Fiscal 2000, ended February 26, 2000, was our most profitable year ever. Revenues for the year reached $12.5 billion, a 24% increase over the previous year, and net earnings increased 60%, to $347.1 million. Earnings per share on a diluted basis rose from $1.03 in fiscal 1999 to $1.63 in fiscal 2000.

We continue to focus on creating value for our shareholders. In addition to concentrating on traditional earnings-based measures of financial performance, last year we began using an Economic Value Added (EVA®) financial management system to measure how well we utilize the Company's assets in producing earnings. This past year, our EVA improved more than $100 million, to $178 million. *Chief Executive* magazine ranked us 11th on their list of companies that created the most wealth for shareholders; we were the only retailer in the top 25. Our return on equity, another key financial performance measure, grew to more than 30%. The strength of our earnings and efficiency with which we deployed capital enabled us to repurchase approximately $400 million of our common stock during the past year.

We have built a world-class inventory management system, turning our assets faster than any other retailer in our sector. Our inventory turns exceeded 7 times this year, up from 4.6 just three years ago. In the past four years, we reduced the length of time we own inventory by nearly 30 days. This provided cash to expand our bricks-and-mortar stores and our Web site with internally generated funds.



Inventory Turns



Year-End Stock Price

Reasons for Our Continued Success

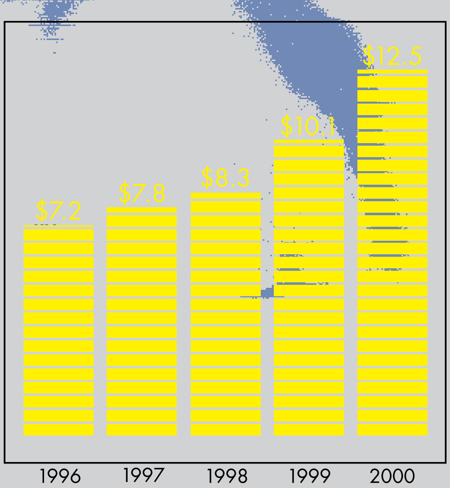
We continue to refine our operating model to deliver the latest products and services quickly. Our evolving store format has helped to make us the consumers' choice for new technology in a fun, informative and no-pressure shopping environment. Average revenues per store surpassed $37 million, more than twice our nearest national competitor. We believe we have created a brand and shopping format customers prefer.

Best Buy has become the consumers' destination for digital technology through effective merchandising, expanded product selection and improved sales execution. Digital products, which grew to 10% of our sales mix last year, are expected to be one of the fastest-growing product categories in the upcoming year. Many of the products we sell today weren't available to consumers 10 years ago.

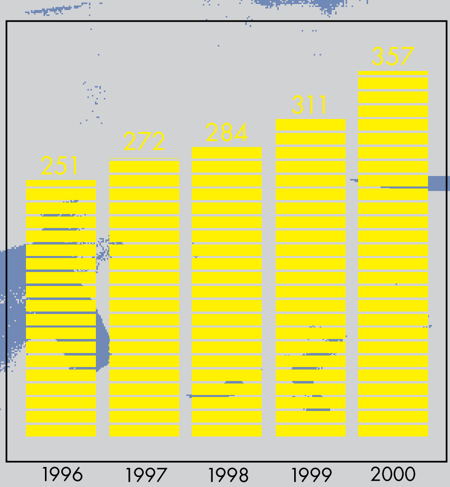
The support of our more than 60,000 hard-working and knowledgeable employees ensured this past year's success. Our high-caliber team gives the Company a competitive advantage, helping our customers understand even the most complex technologies.

The healthy economy—with particularly strong consumer spending in our sector—and increased sales of digital products enabled Best Buy to achieve double-digit comparable store sales growth for eight of the past nine quarters.

In fiscal 2000, we opened 47 stores, including our entry into Sacramento, San Diego and San Francisco, Calif.; as well as Richmond, Va. This autumn, we will enter the densely populated metropolitan New York area with more than a dozen stores—part of a three-year, 40-store strategy for the market. Our goal is to open approximately 60 new stores per year for the next five years, bringing our total store count to nearly double what it is today. Last year we introduced nine small-market stores, serving communities of less than 200,000 people. These 30,000-square-foot stores offer the same product categories as larger stores but have more flexible floor plans and product assortments tailored to their communities. We plan to increase our expansion of these stores over the next five years. This allows Best Buy to continue growing to reach that segment of the population that lives in smaller communities.



Revenues
(in billions)



Store Count

Capitalizing On an Evolving Marketplace

The expansion of the Internet is changing the face of retail. To capitalize on this trend, we are leveraging our more than 350 retail stores and our established, loyal customers as a springboard into the e-commerce realm. The BestBuy.com™ site is an obvious extension of our retail stores and will benefit from the assets of our bricks-and-mortar locations, including our existing customer base, brand awareness, national advertising, vendor alliances, supply chain, service capabilities and warehousing.

In turn, we believe the site can acquire new customers into our enterprise, while enhancing the loyalty of current Best Buy customers. Products will be available for both home delivery and in-store pickup. Customers can make returns and exchanges, and receive additional products and services at our retail stores, something pure e-tailers cannot offer.

The growing importance of strategic alliances demonstrates the increasing link between the offline retail sector and the burgeoning online world. Our comprehensive alliance with Microsoft Corp. will provide us with additional financial and technological resources to provide our customers with end-to-end technology solutions, not just products.

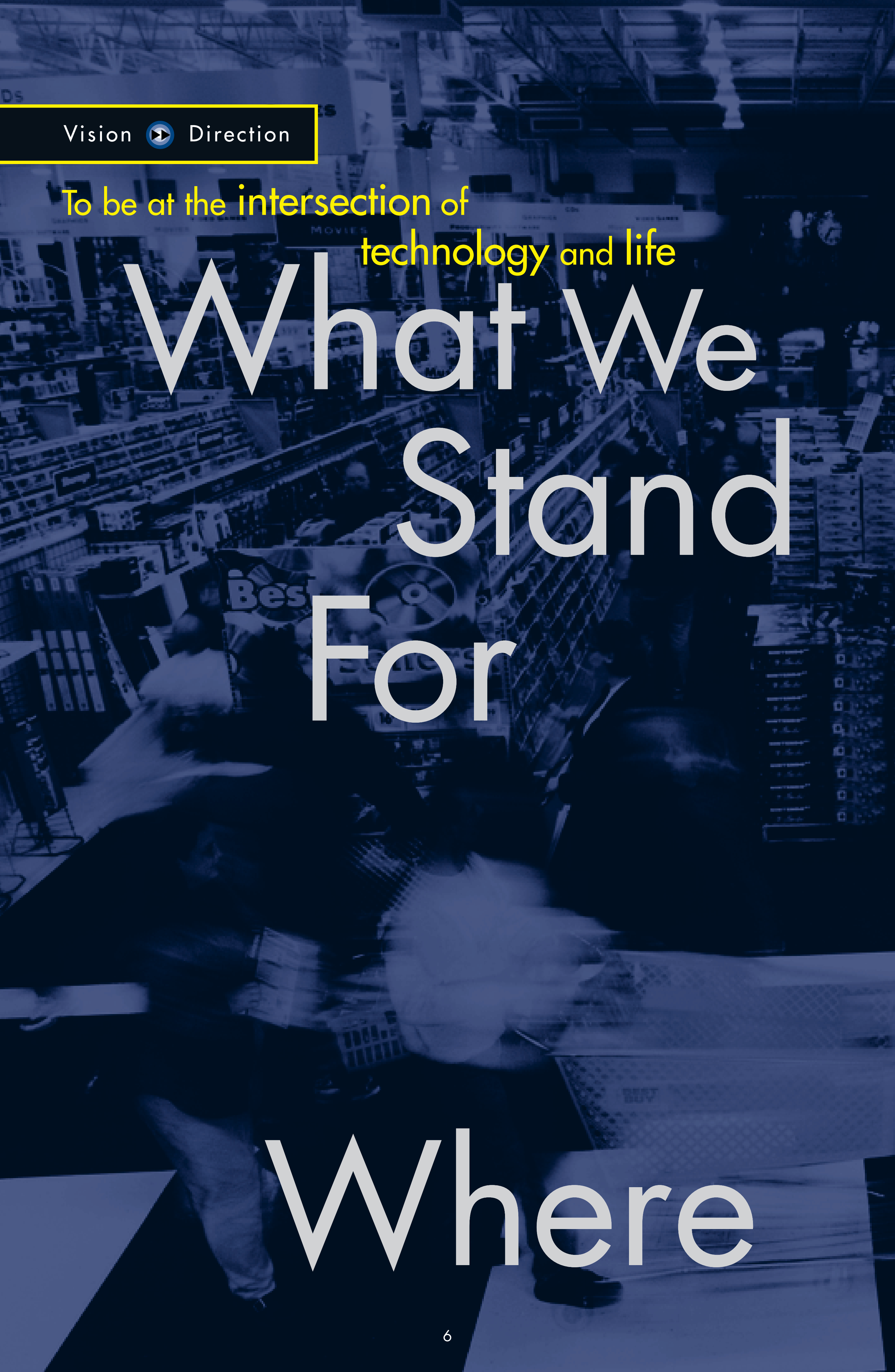
Positioned To Lead the Industry

We look forward to the challenges and growth opportunities in the coming year. Led by our talented employees, proximity to all major U.S. markets and increased Web presence, we are confident that we can meet our customers at the intersection of technology and life. Best Buy, as a consumer-centric company, is committed to provide customers—anytime and anywhere—the best shopping experience available. We are driving tremendous consumer excitement for products and services of the new digital era.

I believe our Company is entering a period of unprecedented opportunity—for our customers, employees, business partners and for you, our valued shareholders.

Richard M. Schulze
Founder, Chairman & CEO

Vision ▶ Direction



To be at the intersection of technology and life

What We Stand For

Where

Mission Passion

We improve people's lives by making technology and entertainment products affordable and easy to use

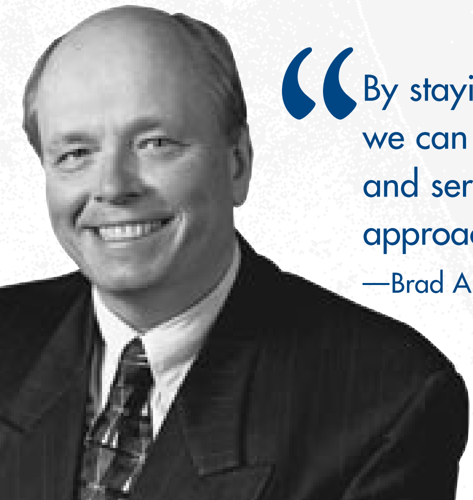
We're Going

Visionary ▶ Focused

Tomorrow's Best Buy can be even better than today's. Throughout the past three-and-a-half decades, Best Buy has evolved from an audio components retailer into the nation's No. 1 specialty retailer of consumer electronics, personal computers, entertainment software and appliances. Though the products and services we offer have changed over the years, our goal of providing consumers with quality products and services at affordable prices continues.

Technology has changed tremendously in the past decade, and we have continued to evolve our stores to meet and exceed consumers' expectations. We are confident that the steps we have taken during our Company's history have enabled us to create our vision—to meet consumers at the intersection of technology and life.

To do this, we are positioning ourselves as the place consumers think of first to buy new technology—wherever they shop. BestBuy.com™ is a natural extension of our bricks-and-mortar stores and will allow us to reach more consumers and ultimately tap new markets.



> "By staying in lock-step with consumers' changing needs, we can focus on providing a better combination of products and services than our competition. We believe this proactive approach contributes to a higher level of customer loyalty."
>
> —Brad Anderson, President & COO

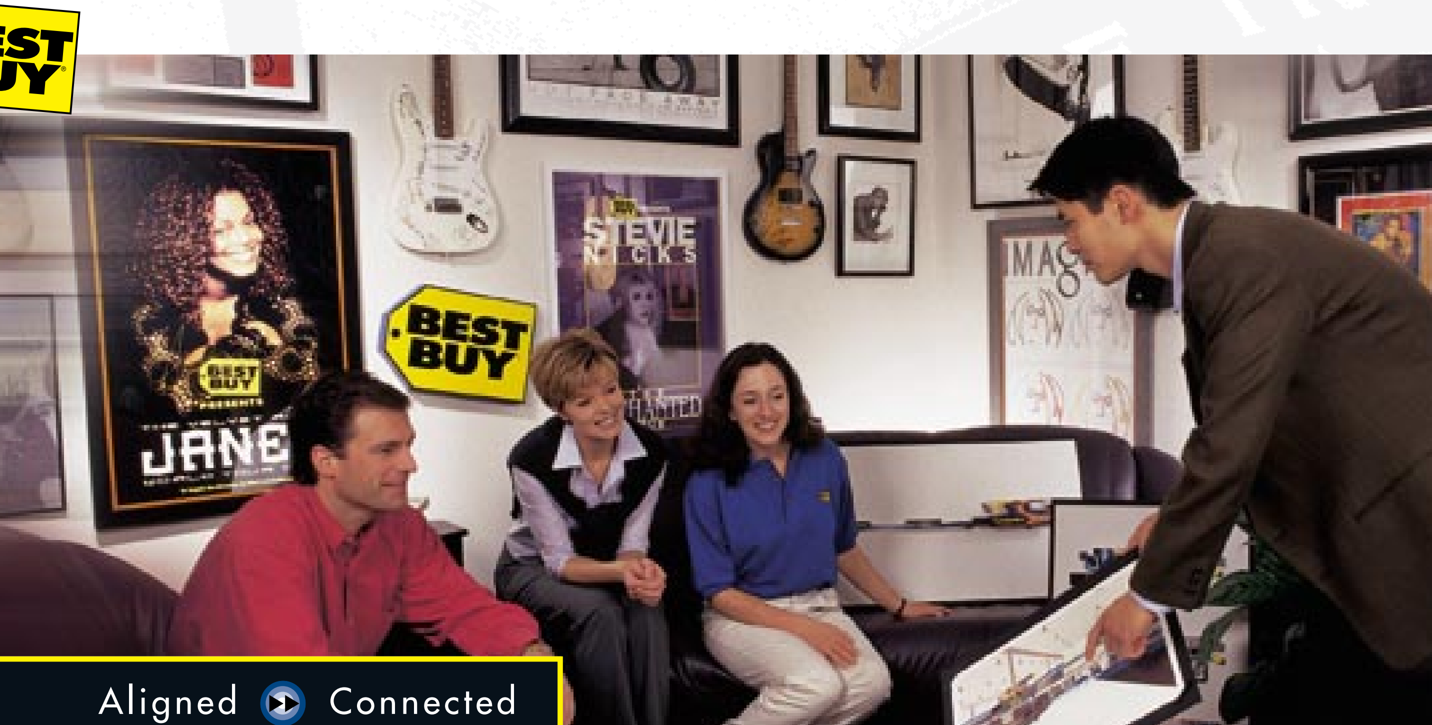
Best Buy finds opportunities and takes the lead. DVD is an excellent example. In March 1997, Best Buy became the first national retailer to launch Digital Versatile Disc (DVD) hardware and software. Within one year, we had sold more than one million DVD movies, surpassing all other retailers. According to the Consumer Electronics Association, sales of DVD hardware leaped 370% in 1999.

We've positioned Best Buy as the consumers' choice for digital technology. As consumers embrace the transition from analog to digital products, we plan to offer the products currently on the market, including digital television, Internet-ready cellular telephones, MP3 digital downloadable music players, and direct broadcast satellite (DBS) systems, as well as those still in development.

We're evolving from selling strictly products to providing end-to-end consumer solutions. Best Buy can create more value for our customers and shareholders by providing connections—including telecommunications, Internet services, broadband and digital cable—and bundling them with entertainment, educational and informational resources, and interactive services into a simple solution.

We believe it's more than being at the right place at the right time. It's understanding what our customers want and need, and meeting those needs. By focusing on new technology and gauging customer response, Best Buy has remained at the forefront of technology retailing.

> "Best Buy is more than just a product retailer. We create connective solutions for our customers. We continue to keep consumers at the center of our strategies by making technology easy to understand and use. The best is yet to come."
>
> —Phil Schoonover, Senior Vice President–Digital Technology Solutions



Aligned Connected

We capitalize on other companies' expertise. During the past year, Best Buy aligned itself with a number of technology leaders.

The largest of these alliances was an agreement with Microsoft Corp. This alliance provides us with access to new software and technology, and co-marketing opportunities among Best Buy, BestBuy.com and Microsoft properties. From its inception in July, our market-leading Internet service provider (ISP) instant rebate offers generated nearly three-quarters of a million subscribers.

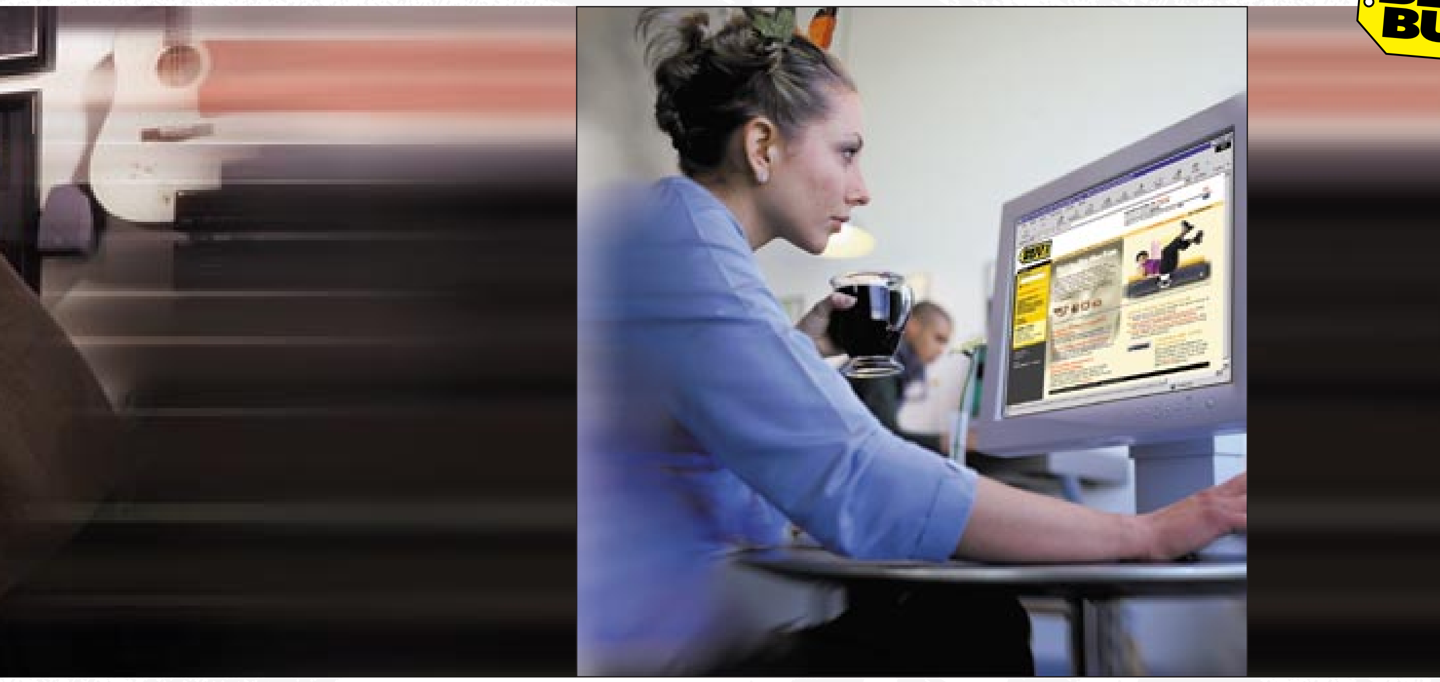
We leveraged the direct-to-consumer model with the retail model and completed an agreement with Micron Electronics, Inc. that enables us to bring our consumers the latest in personal computer technology. This year we also formed Redline™ Entertainment to partner with the music and gaming industries in order to provide innovative entertainment products targeted to our customers.

BestBuy.com completed two equity investments to provide better solutions for our consumers. Simplexity.com™ provides telecommunications services options by market, and etown.com,™ a leading online source of consumer electronics information, allows access to independent editorials and product information.

Overall, these alliances will help Best Buy fulfill both our mission of making technology affordable and easy to use, as well as our vision of meeting our customers at the intersection of technology and life.

"Our alliances are critical to reposition Best Buy from a seller of products into a technology solutions provider. We will use our market position in technology and entertainment products to drive relevant connections, applications and content to our customers. The digital age offers tremendous new opportunities."

—Wade Fenn, Executive Vice President–Marketing



No two customers are alike. Some prefer to shop in stores, others enjoy the convenience of shopping via catalog or the Internet, and many will touch multiple channels in the same transaction. Whichever way they visit Best Buy, we want their shopping experience to be friendly, convenient and satisfying.

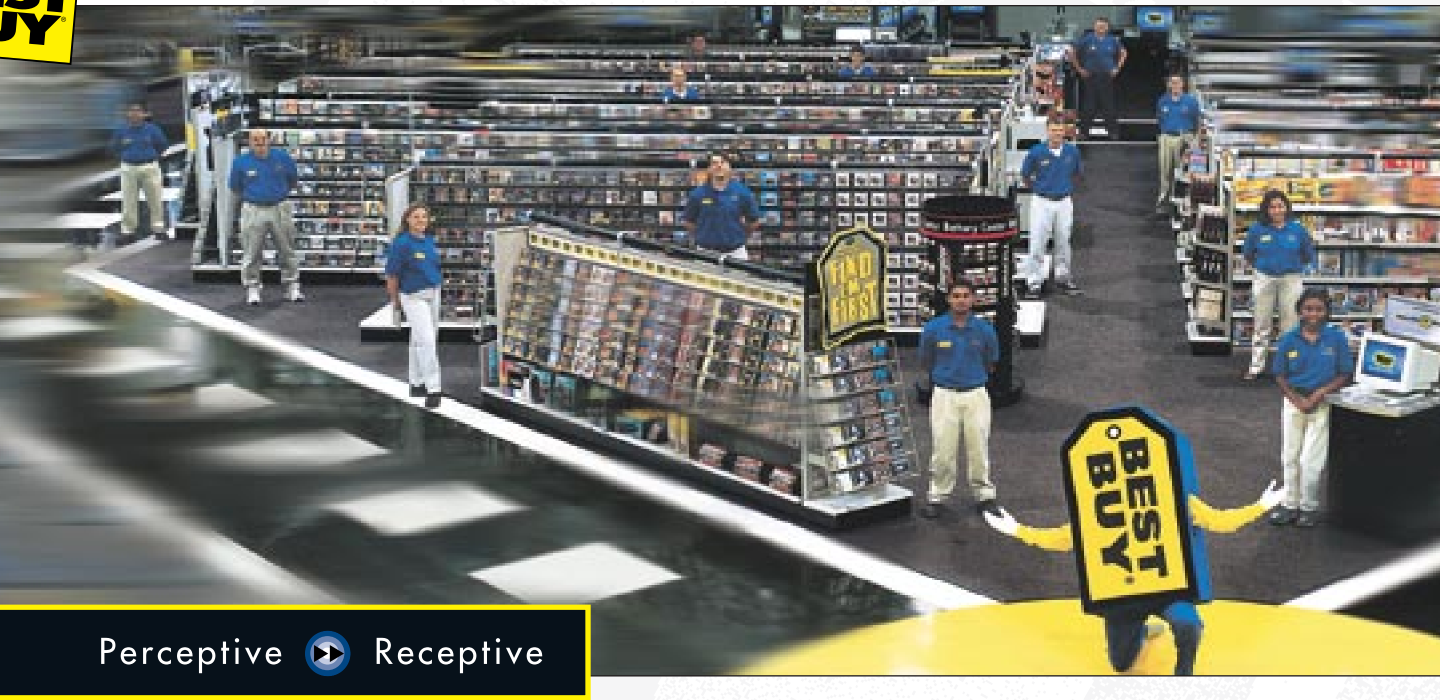
BestBuy.com is building interactive consumer relationships to be a compelling and consistent alternative to our in-store experience. Our Internet business is expected to benefit significantly from Best Buy's established brand equity, and its advertising programs, customer base, supply chain and logistics, retail stores and other assets. Similarly, we are building many new capabilities within BestBuy.com, such as "one-to-one marketing"—the ability to know and deliver on our customers' expectations. Our intuitive on-line store features products, accessories and services in an easy-to-use format that is fun and different from others in the industry.

We believe BestBuy.com can achieve market leadership on the Internet, serve as a tool to enhance the loyalty of current Best Buy shoppers and will acquire new customers. Many of these customers may come from the 40% of the United States not currently served by a Best Buy store.

We intend to provide our customers with a seamless experience across Best Buy shopping environments. Our clicks-and-mortar vision can be realized by leveraging Best Buy's substantial brand and established infrastructure, and building new Internet capabilities that will benefit our entire enterprise.

"We believe BestBuy.com™ will dominate the Internet marketplace. Best Buy's seamless shopping experience in our retail stores, catalogs and the Web caters to our customers."

—John Walden, President–BestBuy.com



Perceptive ▶ Receptive

Who do you go to for information about the latest technology? Most people call a friend they consider an expert. We believe that our knowledgeable sales team can be that expert.

Our noncommissioned product specialists help consumers select the technology and entertainment products that improve their time. By presenting these products in an approachable and non-intimidating way, our salespeople can recommend products that are relevant to our customers' lives. Our sales team is dedicated to helping our customers purchase the technology and entertainment products that will improve their personal time.

Best Buy carries a broad selection of products to enhance consumers' time—whether it's leisure or work. Our fun, informative shopping atmosphere respects consumers' knowledge and puts them in control.

Our ability to demonstrate new technology is a primary reason for our growth. Our young, well-educated customers embrace new technology. They're not just buying new technology to have it. They are buying it because of what it does to improve their time. We strive to make their purchase easy.

"We take confusing technology and help consumers use it in their everyday lives. We are continually working to understand what consumers want and why."

—Mike Linton, Senior Vice President–Strategic Marketing

Our success is based on continuing to understand consumers. Every month, the Gallup Organization surveys 10,000 of our customers to measure their satisfaction with our stores. In-depth research, including focus groups, helps us understand consumers' changing needs.

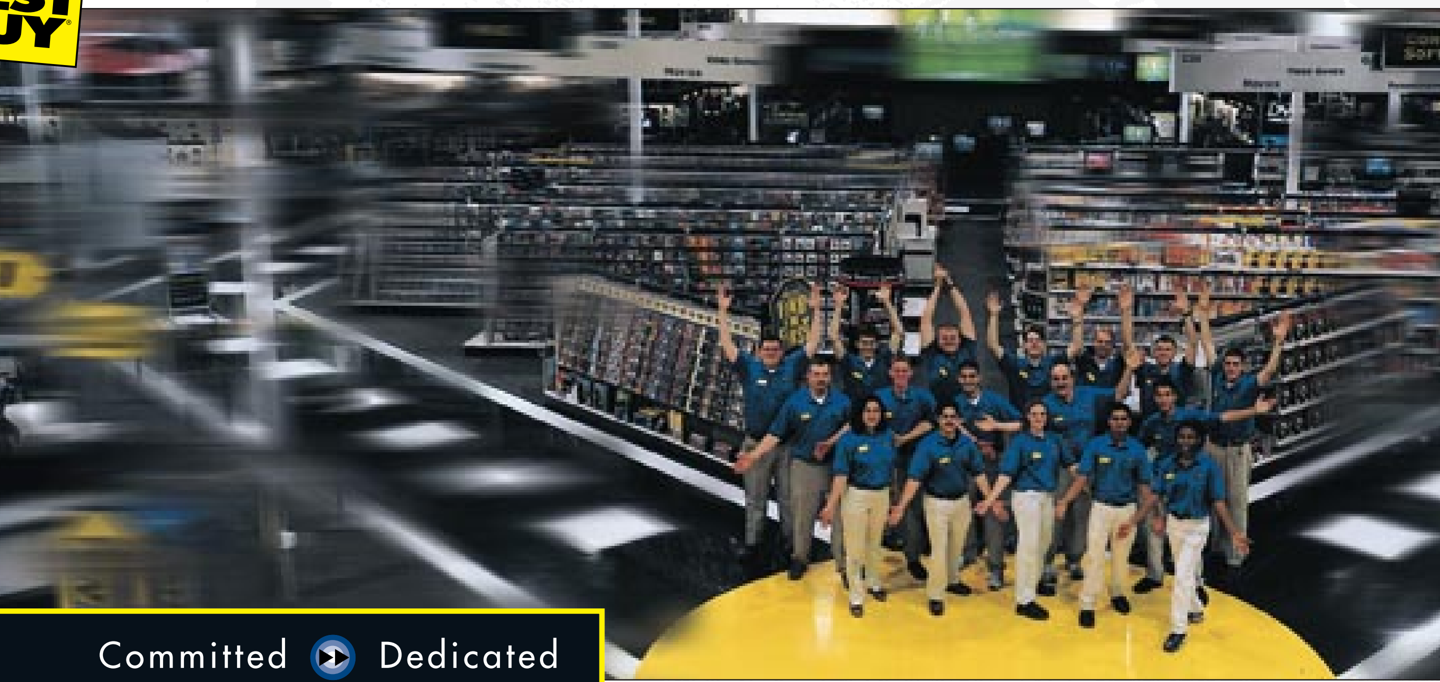
As a result, we know our target customer group: technology enthusiasts. Nearly 70% are 15 to 39 years old, most are males, half have children at home, nearly half are college graduates and the majority have above-average incomes. This group makes up 34% of our customer population but accounts for 53% of the dollars spent at Best Buy.

Our high-tech, interactive stores appeal to younger, well-educated, techno-savvy consumers. Our high-energy and fun format emphasizes customer choice and product selection. Products are placed within customers' reach so they can see and try new technology before they buy. Web stations in each store will allow customers to surf for information and order products directly from BestBuy.com.

We are committed to making the latest technology understandable and easy to purchase. We believe our consumer-centric approach is key to Best Buy becoming the retailer of choice, one of the elements that will enable us to provide greater shareholder value.

"We improved the shopping experience by implementing an automated system for rebates at our cash registers. It's just another way we can make shopping more convenient and enjoyable for our customers."

—Joe Pelano, Senior Vice President–Operations



Committed ▶ Dedicated

More than 60,000 employees nationwide drive our Company. Our dedicated and enthusiastic product specialists in our consumer-friendly store format utilize interactive kiosks and informative displays to make even the most complex technology understandable. Our sales force is noncommissioned—a decision made in 1989 and brought about by listening to our customers, providing an enjoyable shopping experience without the unnecessary pressure.

We reward those who do an extraordinary job and create opportunities for growth and promotion. Our expansion plans, which include approximately 60 stores per year for the next five years, provide additional opportunities for advancement.

Employees participate in monthly product, service and operations training to keep them current on new technology. This is part of our quest to become a true "Learning Organization."

Our employees bring something extra—passion: for the products, the technology and the joy of sharing their knowledge with others. Enthusiasm is something you can't teach. Our customers experience this during each visit. Who better to trust for product information than someone who's played every computer game on the market, is a music lover or has created their own Web site? We employ true enthusiasts for the products we sell.

> "Best Buy is striving to become the employer, as well as the retailer, of choice—a title we don't take lightly. Employees who enjoy what they do translate into happy customers."
>
> —Nancy Bologna, Senior Vice President–Human Resources

Giving back to the community is a priority at Best Buy. We are committed to contributing to the communities where our employees and customers live and work. Our Company's contribution goal is to donate 1.5% of pre-tax earnings, focusing 50% on youth development organizations and the remaining in Best Buy community initiatives. In fiscal 2000, Best Buy and the Best Buy Children's Foundation™ (BBCF) awarded grants and employee volunteer support totaling over $5.5 million.

The BBCF, established in 1994, supports organizations and programs committed to making a difference in the lives of school-aged children. It provides resources to innovative programs that promote personal achievement, mentor relationships and life skills. The Best Buy Charity Classic, the major fundraiser for the BBCF, is the largest charitable golf event in Minnesota, raising more than $1.3 million last year.

Fiscal 2000 was the second year of our three-year, $1.5 million pledge to America's Promise—The Alliance for Youth. Best Buy contributes to organizations that fulfill the promise, including United Way, Dollars for Scholars, Reading Is Fundamental, Boys and Girls Clubs of America, and DECA.

Our employee volunteers are professional role models in our communities. They mentor at-risk youth, teach in Junior Achievement classrooms and build homes for Habitat for Humanity. As our Company continues to grow, so does our ability to support organizations that share our values.

> "Best Buy is dedicated to making a meaningful and lasting impact on the quality of life in the communities we serve. That commitment is reflected in our support of nonprofit programs that put young people on the path to become responsible, successful adults."
>
> —Susan Hoff, President–Best Buy Children's Foundation

Who We Are

Unwavering Ethics

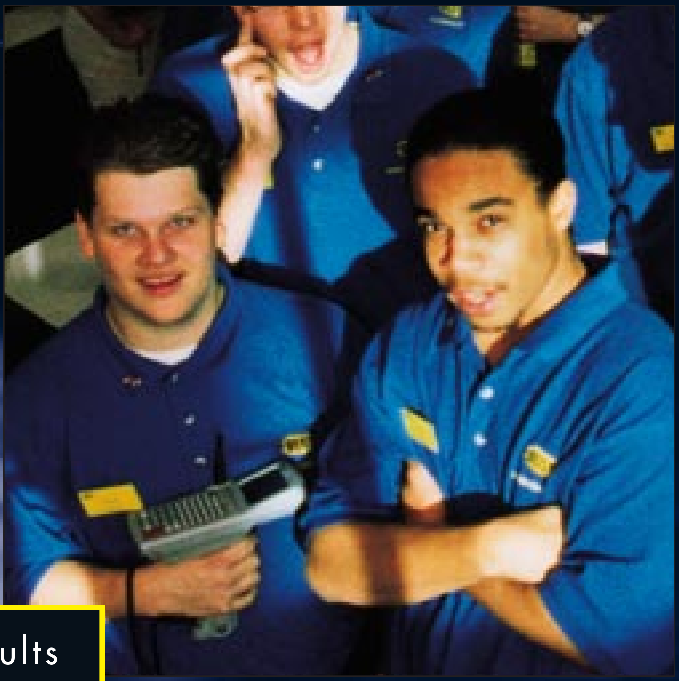
- Honesty and integrity
- Respect for our customers, communities and fellow employees

Extraordinary Growth

- For our Company, employees and shareholders
- Encouraging discovery and learning
- Embracing speed and change

Being the Best

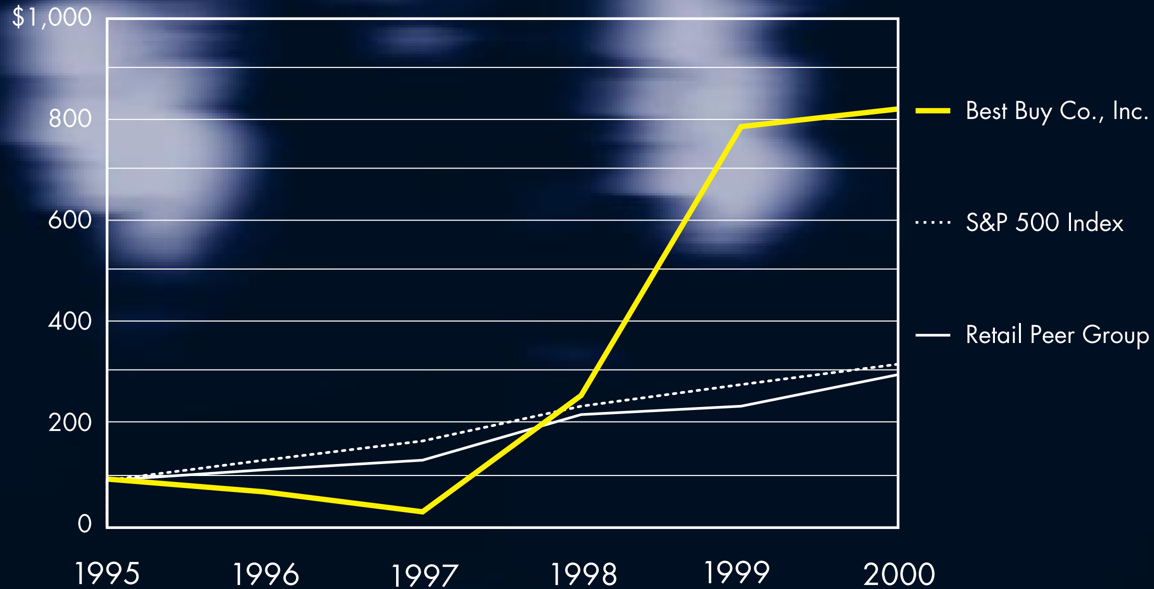
- Having fun while being the best



Performance Results

A $100 investment in Best Buy on February 25, 1995, is worth two-and-a-half times more than an investment in the S&P 500 Index or in a peer group of retailers.

How We Did



Stock Performance

Source: Media General Financial Services

$ in thousands, except per share amounts

Fiscal Period[1]	2000	1999[6]	1998[6]	1997[6]
Statement of Earnings Data				
Revenues	**$ 12,494,023**	$ 10,064,646	$ 8,337,762	$ 7,757,692
Gross profit	**2,393,429**	1,814,523	1,311,688	1,045,890
Selling, general and administrative expenses	**1,854,170**	1,463,281	1,145,280	1,005,675
Operating income	**539,259**	351,242	166,408	40,215
Earnings (loss) before cumulative effect of accounting change	**347,070**	216,282	81,938	(6,177)
Net earnings (loss)	**347,070**	216,282	81,938	(6,177)
Per Share Data[2]				
Earnings (loss) before cumulative effect of accounting change	**$ 1.63**	$ 1.03	$ .46	$ (.04)
Net earnings (loss)	**1.63**	1.03	.46	(.04)
Common stock price: High	**80.50**	49.00	15.30	6.56
Low	**40.50**	14.75	2.16	1.97
Operating and Other Data				
Comparable store sales change[3]	**11.1%**	13.5%	2.0%	(4.7%)
Number of stores (year-end)	**357**	311	284	272
Average revenues per store[4]	**$ 37,200**	$ 33,700	$ 29,600	$ 29,300
Gross profit percentage	**19.2%**	18.0%	15.7%	13.5%
Selling, general and administrative expense percentage	**14.8%**	14.5%	13.7%	13.0%
Operating income percentage	**4.3%**	3.5%	2.0%	.5%
Inventory turns[5]	**7.2**	6.6	5.6	4.6
Year-End Balance Sheet Data				
Working capital	**$ 453,411**	$ 662,111	$ 666,172	$ 563,083
Total assets	**2,995,342**	2,531,623	2,070,371	1,740,399
Long-term debt, including current portion	**30,650**	60,597	225,322	238,016
Convertible preferred securities	**–**	–	229,854	230,000
Shareholders' equity	**1,095,985**	1,033,945	535,712	428,796

This table should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition, beginning on page 20, and the Consolidated Financial Statements and Notes, beginning on page 30.

[1] Fiscal 1996 contained 53 weeks. All other periods presented contained 52 weeks.

[2] Earnings per share is presented on a diluted basis and reflects two-for-one stock splits in March 1999, May 1998 and April 1994, and a three-for-two stock split in September 1993.

[3] Comparable stores are stores open at least 14 full months.

[4] Average revenues per store is based upon total revenues for the period divided by the weighted average number of stores open during such period.

[5] Inventory turns are calculated based upon a monthly average of inventory balances.

[6] During fiscal 2000, to comply with guidance from the staff of the Securities and Exchange Commission, the Company changed its accounting policy with respect to the recognition of net commission revenues from the sale of certain insured extended service contracts sold after November 1995. This change resulted in a restatement of previously reported financial information.

[7] During fiscal 1994, the Company adopted SFAS No. 109, Accounting for Income Taxes, resulting in a cumulative effect adjustment of ($425) or ($.01) per share.

[8] During fiscal 1991, the Company changed its method of accounting for extended service contracts, resulting in a cumulative effect adjustment of ($13,997) or ($.15) per share.

10-Year Financial Highlights

$ in thousands, except per share amounts

1996[6]	1995	1994[7]	1993	1992	1991[8]
$ 7,214,828	$ 5,079,557	$ 3,006,534	$ 1,619,978	$ 929,692	$ 664,823
933,951	690,393	456,925	284,034	181,062	141,657
813,988	568,466	379,747	248,126	162,286	130,681
119,963	121,927	77,178	35,908	18,776	10,976
46,425	57,651	41,710	19,855	9,601	4,540
46,425	57,651	41,285	19,855	9,601	(9,457)
$ .27	$ .32	$ .26	$ .14	$ .08	$ .05
.27	.32	.25	.14	.08	(.10)
7.41	11.31	7.86	3.92	2.95	.92
3.19	5.53	2.72	1.17	.67	.38
5.5%	19.9%	26.9%	19.4%	14.0%	1.0%
251	204	151	111	73	56
$ 31,100	$ 28,400	$ 22,600	$ 17,600	$ 14,300	$ 12,400
12.9%	13.6%	15.2%	17.5%	19.5%	21.3%
11.3%	11.2%	12.6%	15.3%	17.5%	19.7%
1.7%	2.4%	2.6%	2.2%	2.0%	1.6%
4.8	4.7	5.0	4.8	5.1	4.5
$ 584,769	$ 609,049	$ 362,582	$ 118,921	$ 126,817	$ 64,623
1,891,858	1,507,125	952,494	439,142	337,218	185,528
229,855	240,965	219,710	53,870	52,980	35,695
230,000	230,000	–	–	–	–
430,020	376,122	311,444	182,283	157,568	56,741

Results of Operations

Fiscal 2000 was another outstanding year as the Company generated record revenues and earnings for the third consecutive year. For the fiscal year ended February 26, 2000, net earnings increased 60%, to $347.1 million, compared with earnings of $216.3 million in fiscal 1999. Earnings per share on a diluted basis increased to $1.63 in fiscal 2000, compared with $1.03 in fiscal 1999 and $.46 in fiscal 1998. Continued enhancements to its operating model enabled the Company to generate record results by capitalizing on the ongoing strength in consumer spending and consumers' rapid acceptance of new digital technology.

In addition to traditional financial measurements, the Company uses Economic Value Added (EVA®) to encourage management to take actions to increase shareholder value. EVA is net operating profit after taxes minus a charge for total capital employed. The Company generated EVA of $178 million in fiscal 2000, compared with $75 million in fiscal 1999, a 137% year-over-year improvement. The fiscal 2000 EVA improvement resulted from the stronger operating performance and the leveraging of capital employed through actions such as increasing inventory turns from 6.6 in fiscal 1999 to 7.2 in fiscal 2000. In fiscal 1999, EVA also improved more than $100 million over the previous year.

The following table presents selected revenue data for each of the past three fiscal years ($ in thousands).

	2000	1999	1998
Revenues	**$12,494,023**	$10,064,646	$ 8,337,762
Percentage increase in revenues	**24.1%**	20.7%	7.5%
Comparable store sales change	**11.1%**	13.5%	2.0%
Average revenues per store	**$ 37,200**	$ 33,700	$ 29,600

Revenues in fiscal 2000 increased 24.1% to $12.5 billion, compared with $10.1 billion in fiscal 1999, due to an 11.1% increase in comparable store sales, the net addition of 46 stores and a full year of operations at the 28 stores opened in fiscal 1999. Fiscal 2000 was the second consecutive year of double-digit comparable store sales increases. The increases, which exceeded industry comparable store sales gains, reflect the continued strength in consumer spending and the Company's ability to gain market share. Higher levels of disposable income due to the strong economy, consumers' rapid migration to digital technology and the increased affordability of personal computers all drove consumer demand. Digital products doubled as a percentage of sales, comprising more than 10% of sales at the end of fiscal 2000. Internet service providers (ISPs) offered new subscribers significant rebates on purchases of personal computers, making them more affordable. This stimulated unit sales of personal computers and sales of higher-margin accessories and Performance Service Plans (PSPs) that accompany the purchase of a computer. The Company believes it gained market share in fiscal 2000 as a result of a more customer-focused product assortment and its ability to successfully bring new technology products such as Digital Versatile Disc (DVD) to consumers. Since the launch of DVD two years ago, the Company has captured over 30% of the national market share of DVD software sales and over 20% of DVD hardware sales.

The Company opened 47 new stores in fiscal 2000, including entry into the markets of San Francisco, Sacramento and San Diego, Calif.; Norfolk and Richmond, Va.; Albany and Rochester, N.Y.; and Jacksonville and Tallahassee, Fla. Included in the 47 new stores were nine of the Company's new small-market stores, intended to serve markets with populations less than 200,000. The Company also relocated 10 stores, expanded three stores and closed one store in fiscal 2000.

Revenues in fiscal 1999 were 20.7% higher than the $8.3 billion reported in fiscal 1998, as comparable store sales increased 13.5%, 28 new stores were added and results included a full year of operation at the 13 stores opened in fiscal 1998. The comparable store sales gains last year also were driven by strong consumer spending, market share gains and improvements in the Company's operating model. Increased affordability of products, including personal computers and consumer electronics, contributed to the sales increase along with strong consumer response to new digital technology. More effective advertising, a better product assortment and improved in-stock positions, as well as the continued consolidation and closing of competing retailers, drove the market share gains in fiscal 1999.

Product Category Performance

The following table presents the Company's retail store sales mix by major product category for each of the past three fiscal years.

	2000	1999	1998
Home Office	**35%**	36%	38%
Consumer Electronics–Video	**17%**	16%	15%
Consumer Electronics–Audio	**11%**	11%	11%
Entertainment Software	**19%**	20%	20%
Appliances	**8%**	8%	9%
Other	**10%**	9%	7%
Total	**100%**	100%	100%

The Company's sales in the home office product category continued to expand in fiscal 2000, although the growth was outpaced by gains in other product categories. As a result, the home office category declined to 35% of total sales in fiscal 2000, from 36% in fiscal 1999 and 38% in fiscal 1998. ISP subsidy offers stimulated unit sales of personal computers, which more than offset a decline in average selling prices of approximately 20%. Selling prices of personal computers below $500, after ISP rebates, and the increasing popularity of the Internet, attracted new as well as repeat buyers. Improved merchandising and selling strategies enabled the Company to capitalize on the higher unit sales of personal computers and increase sales of additional higher-margin products and services, such as PSPs and accessories that complement the sale of computer hardware. Additionally, more effective management of the transition to new computer models led to a product offering that better satisfied consumer demand and reduced margin pressure at the end of product life cycles. Consumers also rapidly embraced a popular assortment of new digital communication devices such as digital Web phones, pagers and other new technology products, further driving sales increases in this category.

Consumer electronics comprised 28% of the Company's total sales mix in fiscal 2000, up from 27% in fiscal 1999. Growth in the sales of digital products, such as DVD players, digital camcorders and digital broadcast satellite receivers, contributed to this increase. Consumer demand for DVD players, driven by prices under $200 by year-end, and the expanded availability of popular DVD movie titles, resulted in DVD hardware comparable store sales increases of more than 150%. Despite consumers' rapid acceptance of the DVD format, just over 5% of national households own a DVD player, indicating a significant opportunity for the Company to capitalize on further market penetration. Also contributing to the sales mix increase were strong sales of traditional analog products, such as televisions and home theater components, resulting from better in-stock positions, more effective advertising and increased affordability. The introduction of digital television also continued in fiscal 2000. While unit sales have been modest and prices remain relatively high for both digital-ready and high-definition TV, there is growing consumer interest in this new technology. The Company expects that selling prices will begin to moderate and digital programming will increase, generating additional demand for digital television. The Company believes digital television also represents a significant revenue opportunity in the coming year.

Sales of entertainment software, which includes recorded music and movies, computer software and video games, benefited from strong sales of compact disc (CD) and DVD titles. Sales of recorded music were driven by a higher demand for new releases and better in-stock levels of high-demand titles. The Company posted a second consecutive year of DVD movie comparable store sales gains of more than 100% due to consumers' rapid acceptance of the DVD format, a broader assortment of movie titles and improved retail execution. The Company's combined unit sales of CDs, DVDs and VHS movies exceeded 100 million units in fiscal 2000 for the first time ever. Computer software sales were impacted by a lack of new releases and declines in average selling prices. Video game sales were impacted by declines in average selling prices and product shortages; however, the launch of new technology could invigorate this category in the coming year.

The appliances product category was 8% of total sales in fiscal 2000, unchanged from fiscal 1999. Comparable store sales increases of appliances were better than the industry as a whole, driven by more effective promotions, improved in-stock levels and a broader assortment of products. However, there were fewer technological advancements in appliances compared with other product categories, resulting in a more moderate comparable store sales increase than the Company as a whole.

The "other" category, comprised of photographic products, furniture and PSPs, increased to 10% of sales in fiscal 2000 from 9% of sales in fiscal 1999. Increased popularity of digital cameras contributed to sales increases in this category, while generally higher unit sales of products led to increased sales of PSPs. Better merchandising of home office supplies also contributed to the overall sales gains in this category.

Components of Operating Income

The following table presents selected operating ratios as a percentage of revenues for each of the past three fiscal years.

	2000	1999	1998
Gross profit	**19.2%**	18.0%	15.7%
Selling, general and administrative expenses	**14.8%**	14.5%	13.7%
Operating income	**4.3%**	3.5%	2.0%

Gross profit was 19.2% of revenues in fiscal 2000, an improvement of 1.2% of sales over fiscal 1999. Gross profit margins improved by more than 5% of sales since fiscal 1997. The current-year increase resulted from higher product margins, a more profitable sales mix positively impacted by higher sales of PSPs and accessories, and an enhanced inventory assortment. Inventory turns continued to improve, reaching 7.2 turns in fiscal 2000, compared with 6.6 turns in fiscal 1999 and 5.6 turns in fiscal 1998. The increase in inventory turns resulted in lower markdowns, particularly during model transitions. Also, better execution at the retail stores improved inventory shrink as a percentage of revenues. The Company expects further improvement in gross profit margins in fiscal 2001, as it continues to benefit from a more profitable mix and product margin improvements due to programs initiated in the past few years. However, the Company anticipates the rate of gross profit margin improvement will be less than the significant increases seen over the past two years.

Gross profit margin improved to 18.0% in fiscal 1999 from 15.7% in fiscal 1998, mainly due to the impact of initiatives to generate a more profitable product assortment, increased inventory turns and improved advertising effectiveness. An increase in higher-margin PSP sales also contributed to the improvement.

Selling, general and administrative expenses (SG&A) increased to 14.8% of revenues in fiscal 2000, compared with 14.5% of revenues in fiscal 1999, as a result of increased spending on the Company's strategic initiatives and expenses related to the greater number of new store openings. Strategic initiatives in fiscal 2000 included the enhancement of operating systems and processes in the Company's Services division, which provides product installation and repair services. Other strategic initiatives included continued development of the Company's e-commerce business and development and refinement of the Company's retail store operating model. Personnel-related expenses rose due to an increase in the caliber and compensation of staff in the Company's retail stores to support the sales of more complex digital products. The more effective sales staff contributed to higher sales of accessories and PSPs. Additional payroll expenses also were incurred to hire and train store managers to support the 47 new stores added in fiscal 2000 and in preparation for the approximately 60 additional stores anticipated in fiscal 2001. Furthermore, the Company has increased its corporate staff to drive strategic initiatives, build the Company's e-commerce business and support the growing base of retail stores. Management believes that investing in strategic initiatives has benefited the Company's operating model and has contributed to gross profit margin gains. SG&A as a percentage of gross margin, one measure of the return on the investment in SG&A, improved to 77% in fiscal 2000 compared with 81% in fiscal 1999. The returns on the increased investment in SG&A are also reflected in the improvement in operating income to 4.3% of revenues in fiscal 2000, from 3.5% in fiscal 1999.

The Company plans to continue to invest in strategic initiatives to improve profitability and increase shareholder value. Spending will likely increase as the Company incurs the costs associated with the further expansion of its retail store network, including entry into the metropolitan New York market. Higher SG&A spending also is expected due to the launch of the Company's expanded e-commerce business and related marketing expenses to generate awareness and drive customer traffic. The Company also will continue to invest in new information systems, its Services division and inventory management systems. Management expects the investment in SG&A will continue to be funded by the anticipated increase in gross profit margin.

The increase in SG&A as a percent of sales in fiscal 1999 compared with fiscal 1998 was due primarily to higher levels of compensation and professional services. Compensation increased due to a competitive labor market, a full year of the dedicated area in the retail stores designed to support sales of more complex products and expenses associated with an increased number of store openings. Additionally, professional service expenses were incurred for initiatives to improve operating performance and implement business process improvements, in addition to addressing Year 2000 system issues.

Net interest income improved nearly $23 million in fiscal 2000, as compared with fiscal 1999, due to higher cash balances, higher interest rates and lower levels of debt. Faster inventory turns and increased profitability enabled the Company to maintain its cash balances even with the repurchase of nearly $400 million of common stock in fiscal 2000.

The Company's effective income tax rate in fiscal 2000 was 38.3%, down slightly from 38.5% in fiscal 1999 and 38.6% in fiscal 1998. The Company's effective tax rate is impacted by changes in the taxability of investment income and state income tax rates.

Subsequent to year-end, the Company finalized a comprehensive strategic alliance with Microsoft Corp. The agreement encompasses significant co-marketing between the Microsoft Network of Internet Services (MSN™), BestBuy.com and Best Buy's retail stores, via direct marketing and advertising inserts. Microsoft will support BestBuy.com with prominent placement across Microsoft properties, including MSNBC, WebTV Network,™ the Expedia.com™ travel service, MSN Hotmail™ Web-based e-mail service and the MSN eShop online shopping service. In addition to Microsoft providing marketing and technology support to Best Buy, the agreement provides mutual financial benefits for both companies. In connection with the alliance, Microsoft purchased 3.9 million shares of Best Buy common stock for $200 million.

Liquidity and Capital Resources

Record financial performance enabled the Company to internally fund its business expansion and repurchase approximately $400 million of the Company's common stock, while maintaining its liquidity and strong financial position. Cash flow from operations increased $98 million in fiscal 2000, to $760 million, driven by earnings growth and continued improvement in inventory management. Cash and cash equivalents totaled $751 million at the end of fiscal 2000, compared with $786 million at the end of fiscal 1999.

Inventories at the end of fiscal 2000 were $1.2 billion, up only 13% compared with one year ago, even with a 24% sales increase, due to faster inventory turns. The increase in inventories was fully funded by an increase in accounts payable.

Trade receivables, mainly credit card and vendor-related receivables, increased $57 million from one year ago. The increase was primarily due to higher business volumes resulting from a 25% increase in fourth-quarter sales and amounts due from ISP promotion subsidies. Receivables from sales on the Company's private-label credit card are sold to third parties, without recourse, and the Company does not bear any risk of loss with respect to these receivables.

Other assets increased $23 million, with $16 million resulting from the Company's strategic investments in other companies made as part of its overall plan to expand its e-commerce business. Acquisition of leasehold rights, the purchase of insurance policies in connection with the Company's deferred compensation plan as well as changes in deferred income taxes contributed to the net change in other assets.

Accounts payable and accrued liabilities increased compared with fiscal 1999, due to higher business volume. Accrued compensation and related liabilities increased versus one year ago as a result of expenses associated with the expanding employee base supporting the Company's growth. The increase in long-term liabilities was primarily due to the increase in long-term deferred compensation and a net increase in deferred revenue related to PSPs.

Debt declined $30 million in fiscal 2000 due to the repayment of an $18 million note and scheduled maturities of capital leases and other loans.

Capital spending in fiscal 2000 was $361 million, compared with $166 million and $72 million in fiscal 1999 and fiscal 1998, respectively. The Company expanded its store base by investing in 47 new stores and 13 remodeled or relocated stores during fiscal 2000, compared with 28 new stores and five remodeled or relocated stores in fiscal 1999, and 13 new stores and five remodeled or relocated stores in fiscal 1998.

The Company increased its expansion program in fiscal 1999 after the initiatives to improve operations resulted in an enhanced operating model and improved profitability. Capital spending in fiscal 2000 also included the initial development for some of the stores scheduled to open in fiscal 2001. Additionally, the Company expanded its corporate facilities to support the growth of the business, the most significant investment being the purchase of an additional office building to supplement the Company's corporate office. The Company also continued to invest in new systems and technology to better position it for continued growth and to generate improvements in its existing business.

The following table presents the number of stores, by prototype, operated by the Company at the end of the last three fiscal years.

Store Prototype	2000	1999	1998
28,000 square feet	31	43	48
36,000 square feet	34	34	34
45,000 square feet	231	182	150
58,000 square feet	52	52	52
Small-market stores (30,000 square feet)	9	–	–
Total number of stores at year-end	357	311	284
Average store size (in square feet)	44,000	43,700	43,200

Capital expenditures in fiscal 2001 are expected to approximate $600 million, exclusive of amounts to be expended on property development, to support accelerated store growth and the Company's strategic initiatives. Included in the approximately 60 stores scheduled to open in fiscal 2001 are approximately 12 small-market stores, which the Company introduced in fiscal 2000. In addition to the new stores, the Company plans to remodel or relocate about 10 stores. Also included in fiscal 2001 capital spending is the construction of the Company's seventh distribution center, a 650,000-square-foot facility in Dublin, Ga., and the initial land and construction costs for a new corporate office facility scheduled to open in fiscal 2002 that will replace existing owned and leased facilities. The Company also expects to continue to make significant investments in technology in support of its expanding and increasingly complex business operations.

The Company's practice has been to lease rather than own real estate; however, for those sites developed using working capital, the Company has historically sold and leased back those properties under long-term leases. The costs of development are classified as recoverable costs from developed properties and are included in current assets. Recoverable costs from developed properties at the end of fiscal 2000 was essentially unchanged from the prior year, but is expected to increase in fiscal 2001 consistent with the Company's store expansion plans. During fiscal 2000, the Company decided to continue to own, rather than sell and lease back, a recently constructed distribution center in Dinuba, Calif.

In October 1998 and September 1999, the Company's Board of Directors authorized repurchases of up to $100 million and $200 million, respectively, of the Company's common stock. These stock repurchase plans were completed with a total of 1.8 million and 3.8 million shares repurchased, respectively. In February 2000, the Company's Board of Directors authorized the repurchase of up to an additional $400 million of the Company's common stock from time to time through open market purchases. This plan has no stated expiration date. As of February 26, 2000, 1.9 million shares had been repurchased and retired under this plan at a cost of $100 million.

In August 1999, the Company entered into an unsecured $100 million revolving credit facility, replacing the $220 million facility that was scheduled to mature in June 2000. The Company was able to reduce the size of the facility due to improved operating performance and better inventory management. In addition, the new facility makes certain financial covenants less restrictive, thereby providing the Company with additional flexibility. The current facility is scheduled to mature in June 2002.

Management believes that funds from the expected results of operations and available cash and cash equivalents will be sufficient to finance the Company's anticipated expansion plans and strategic initiatives for the next year. The revolving credit facility and the Company's inventory financing program are also available for additional working capital needs or investment opportunities.

Quarterly Results and Seasonality

Similar to most retailers, the Company's business is seasonal. Revenues and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season. The timing of new store openings and general economic conditions may affect future quarterly results of the Company.

The following tables show selected unaudited quarterly operating results and high and low prices of the Company's common stock for each quarter of fiscal 2000 and 1999.

($ in thousands, except per share amounts)

Quarter	1st	2nd	3rd	4th
Fiscal 2000				
Revenues	**$ 2,385,431**	**$ 2,686,640**	**$ 3,107,337**	**$ 4,314,615**
Gross profit	**462,002**	**530,520**	**590,367**	**810,540**
Operating income	**71,701**	**89,606**	**122,588**	**255,364**
Net earnings	**46,809**	**58,067**	**78,389**	**163,805**
Diluted earnings per share	**.22**	**.27**	**.37**	**.78**
Fiscal 1999				
Revenues	$ 1,938,383	$ 2,177,766	$ 2,492,467	$ 3,456,030
Gross profit	348,938	405,991	444,215	615,379
Operating income	22,784	68,437	90,230	169,791
Net earnings	12,477	41,455	53,543	108,807
Diluted earnings per share	.06	.20	.25	.51

Common Stock Prices

Quarter	1st	2nd	3rd	4th
Fiscal 2000				
High	**$ 57.38**	**$ 80.50**	**$ 72.81**	**$ 67.00**
Low	**40.50**	**44.25**	**45.88**	**42.00**
Fiscal 1999				
High	$ 19.00	$ 27.41	$ 29.84	$ 49.00
Low	14.75	14.88	16.00	23.44

Best Buy's common stock is traded on the New York Stock Exchange, under the symbol BBY. As of March 31, 2000, there were 1,940 holders of record of Best Buy common stock. The Company has not historically paid, and has no current plans to pay, cash dividends on its common stock.

Safe Harbor Statement Under the Private Securities Litigation Reform Act

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Annual Report are forward-looking statements and may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "intend" and "potential." Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause the Company's actual results to differ materially from the anticipated results expressed in such forward-looking statements, including, among other things, general economic conditions, product availability, sales volumes, profit margins, and the impact of labor markets and new product introductions on the Company's overall profitability. Readers should refer to the Company's Current Report on Form 8-K filed on May 15, 1998, that describes additional important factors that could cause actual results to differ materially from those contemplated by the statements made in this Annual Report.

Consolidated Balance Sheets

$ in thousands, except per share amounts

Assets	Feb. 26 2000	Feb. 27 1999
Current Assets		
Cash and cash equivalents	$ 750,723	$ 785,777
Receivables	189,301	132,401
Recoverable costs from developed properties	72,770	73,956
Merchandise inventories	1,183,681	1,046,366
Other current assets	41,985	33,327
Total current assets	2,238,460	2,071,827
Property and Equipment		
Land and buildings	76,228	23,158
Leasehold improvements	254,767	174,495
Fixtures and equipment	733,397	505,232
Property under capital leases	29,079	29,079
	1,093,471	731,964
Less accumulated depreciation and amortization	395,387	308,324
Net property and equipment	698,084	423,640
Other Assets	58,798	36,156
Total Assets	$ 2,995,342	$ 2,531,623

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

$ in thousands, except per share amounts

Liabilities and Shareholders' Equity	Feb. 26 2000	Feb. 27 1999
Current Liabilities		
Accounts payable	$ 1,313,940	$ 1,011,746
Accrued compensation and related expenses	102,065	86,667
Accrued liabilities	287,888	234,364
Accrued income taxes	65,366	46,851
Current portion of long-term debt	15,790	30,088
Total current liabilities	1,785,049	1,409,716
Long-Term Liabilities	99,448	57,453
Long-Term Debt	14,860	30,509
Shareholders' Equity		
Preferred stock, $1.00 par value:		
Authorized–400,000 shares;		
Issued and outstanding–none	–	–
Common stock, $.10 par value:		
Authorized–400,000,000 shares;		
Issued and outstanding–200,379,000		
and 203,621,000 shares, respectively	20,038	10,181
Additional paid-in capital	247,490	542,377
Retained earnings	828,457	481,387
Total shareholders' equity	1,095,985	1,033,945
Total Liabilities and Shareholders' Equity	$ 2,995,342	$ 2,531,623

Consolidated Statements of Earnings

$ in thousands, except per share amounts

For the Fiscal Years Ended	Feb. 26 2000	Feb. 27 1999	Feb. 28 1998
Revenues	$12,494,023	$10,064,646	$ 8,337,762
Cost of goods sold	10,100,594	8,250,123	7,026,074
Gross profit	2,393,429	1,814,523	1,311,688
Selling, general and administrative expenses	1,854,170	1,463,281	1,145,280
Operating income	539,259	351,242	166,408
Net interest income (expense)	23,311	435	(33,005)
Earnings before income tax expense	562,570	351,677	133,403
Income tax expense	215,500	135,395	51,465
Net earnings	$ 347,070	$ 216,282	$ 81,938
Basic earnings per share	$ 1.70	$ 1.09	$ .47
Diluted earnings per share	$ 1.63	$ 1.03	$ .46
Basic weighted average common shares outstanding (000s)	204,194	199,185	175,416
Diluted weighted average common shares outstanding (000s)	212,580	210,006	200,251

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

$ in thousands

For the Fiscal Years Ended	Feb. 26 2000	Feb. 27 1999	Feb. 28 1998
Operating Activities			
Net earnings	**$ 347,070**	$ 216,282	$ 81,938
Depreciation, amortization and other non-cash charges	**109,541**	78,367	71,584
	456,611	294,649	153,522
Changes in operating assets and liabilities:			
Receivables	**(56,900)**	(36,699)	(16,121)
Merchandise inventories	**(137,315)**	14,422	71,271
Other assets	**(11,005)**	(4,251)	(3,278)
Accounts payable	**302,194**	249,094	147,340
Other liabilities	**108,829**	82,544	63,950
Accrued income taxes	**97,814**	62,672	33,759
Total cash provided by operating activities	**760,228**	662,431	450,443
Investing Activities			
Additions to property and equipment	**(361,024)**	(165,698)	(72,063)
(Increase) decrease in recoverable costs from developed properties	**(21,009)**	(65,741)	45,270
(Increase) decrease in other assets	**(18,081)**	(18,128)	4,494
Total cash used in investing activities	**(400,114)**	(249,567)	(22,299)
Financing Activities			
Long-term debt payments	**(29,946)**	(165,396)	(22,694)
Long-term debt borrowings	**–**	–	10,000
Issuance of common stock	**32,229**	20,644	14,869
Repurchase of common stock	**(397,451)**	(2,462)	–
Total cash (used in) provided by financing activities	**(395,168)**	(147,214)	2,175
(Decrease) Increase in Cash and Cash Equivalents	**(35,054)**	265,650	430,319
Cash and Cash Equivalents at Beginning of Period	**785,777**	520,127	89,808
Cash and Cash Equivalents at End of Period	**$ 750,723**	$ 785,777	$ 520,127

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

$ in thousands

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balances at March 1, 1997	$ 4,329	$ 241,300	$ 183,167
Stock options exercised	134	14,056	–
Tax benefit from stock options exercised	–	10,642	–
Conversion of preferred securities	–	146	–
Net earnings	–	–	81,938
Balances at February 28, 1998	4,463	266,144	265,105
Stock options exercised	199	21,381	–
Tax benefit from stock options exercised	–	40,428	–
Conversion of preferred securities	509	221,896	–
May 1998 two-for-one stock split	5,016	(5,016)	–
Repurchase of common stock	(6)	(2,456)	–
Net earnings	–	–	216,282
Balances at February 27, 1999	**10,181**	**542,377**	**481,387**
Stock options exercised	**408**	**32,713**	**–**
Tax benefit from stock options exercised	**–**	**79,300**	**–**
March 1999 two-for-one stock split	**10,190**	**(10,190)**	**–**
Repurchase of common stock	**(741)**	**(396,710)**	**–**
Net earnings	**–**	**–**	**347,070**
Balances at February 26, 2000	**$ 20,038**	**$ 247,490**	**$ 828,457**

See Notes to Consolidated Financial Statements.

Independent Auditor's Report

Shareholders and Board of Directors
Best Buy Co., Inc.

We have audited the accompanying consolidated balance sheets of Best Buy Co., Inc. as of February 26, 2000, and February 27, 1999, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 26, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Best Buy Co., Inc. at February 26, 2000, and February 27, 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 26, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Minneapolis, Minnesota
March 28, 2000

$ in thousands, except per share amounts

1. Summary of Significant Accounting Policies

Description of Business

The Company currently operates in a single business segment, selling personal computers and other home office products, consumer electronics, entertainment software, major appliances and related accessories principally through its retail stores. Accordingly, additional disclosures under Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, are not required.

Basis of Presentation

The consolidated financial statements include the accounts of Best Buy Co., Inc. and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated balance sheets and statements of earnings, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates and assumptions.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest the end of February.

Cash and Cash Equivalents

The Company considers short-term investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Recoverable Costs From Developed Properties

The costs of acquisition and development of properties which the Company intends to sell and lease back or recover from landlords within one year are included in current assets.

Merchandise Inventories

Merchandise inventories are recorded at the lower of average cost or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the shorter of the estimated useful lives or lease terms. The Company evaluates potential losses on impairment of long-lived assets used in operations on a location-by-location basis when indicators of impairment are present. A loss is recorded when an asset's carrying value exceeds the estimated undiscounted cash flows from the asset.

$ in thousands, except per share amounts

Stock Splits

The Company completed two-for-one stock splits effected in the form of 100% stock dividends distributed on March 18, 1999 and May 26, 1998. All share and per share information reflects these stock splits.

Revenue Recognition

The Company recognizes revenues from the sales of merchandise at the time the merchandise is sold. Service revenues are recognized at the time the service is provided.

The Company sells extended service contracts, called Performance Service Plans, on behalf of an unrelated third party. The Company recognizes net commission revenues for extended service contracts sold in states where the Company is deemed the obligor ratably over the terms of the service contracts, generally two to five years. The Company recognizes net commission revenues for extended service contracts sold in states where the Company is not deemed the obligor at the time of sale.

Pre-Opening Costs

In fiscal 1999, the Company adopted Statement of Position (SOP) 98-5, *Reporting on the Cost of Start-Up Activities*. The SOP requires the costs of start-up activities, including store opening costs, to be expensed as incurred. The Company historically deferred and amortized those costs over interim periods in the year the store opened. Annual results were not materially impacted by the adoption.

Advertising Costs

Advertising costs, included in selling, general and administrative expenses, are expensed as incurred.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during each period. Diluted earnings per share includes the incremental shares assumed issued on the exercise of stock options. Convertible preferred securities were assumed to be converted into common stock and any related interest expense, net of income taxes, was added back to net earnings when the assumed conversion resulted in lower earnings per share.

Stock Options

The Company applies Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for stock options and presents in Note 5 pro forma net earnings and earnings per share as if the Company had adopted SFAS No. 123, *Accounting for Stock-Based Compensation*.

Reclassifications

Certain previous-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no impact on net earnings or total shareholders' equity.

$ in thousands, except per share amounts

2. Working Capital Financing

Credit Agreement

The Company has a credit agreement (the Agreement) that provides a bank revolving credit facility (the Facility) under which the Company can borrow up to $100,000. The Agreement expires on June 30, 2002. Borrowings under the Facility are unsecured. Interest on borrowings is at rates specified in the Agreement, as elected by the Company. The Company also pays certain commitment and agent fees.

The Agreement contains covenants that require maintenance of certain financial ratios, minimum consolidated net worth and limits owned real estate and capital expenditures. The Agreement also requires that the Company has no outstanding principal balance for a period not less than 30 consecutive days, net of cash and cash equivalents. There were no borrowings under the Facility during fiscal years 2000 or 1999.

Inventory Financing

The Company has a $200,000 inventory financing credit line, which increases to $325,000 on a seasonal basis. Borrowings are collateralized by a security interest in certain merchandise inventories approximating the outstanding borrowings. The terms of this arrangement allow the Company to extend the due dates of invoices beyond their normal terms. The amounts extended generally bear interest at a rate approximating the prime rate. No amounts were extended under this line in fiscal years 2000 or 1999. The line has provisions that give the financing source a portion of the cash discounts provided by the manufacturers.

3. Long-Term Debt

Capital Leases and Other Loans

As of February 26, 2000, long-term debt consisted of capital leases and other loans bearing interest at rates ranging from 5.25% to 9.41%. These obligations are secured by certain property and equipment with a net book value of $35,600 and $42,900 at February 26, 2000 and February 27, 1999, respectively.

During fiscal 2000, 1999 and 1998, interest paid (net of amounts capitalized) totaled $5,300, $23,800 and $37,700, respectively. The fair value of long-term debt approximates the carrying value.

During fiscal 2000, 1999 and 1998, interest expense totaled $5,100, $19,400 and $37,200, respectively, and is included in net interest income (expense).

$ in thousands, except per share amounts

The future maturities of long-term debt consist of the following:

Fiscal Year	Capital Leases	Other
2001	$ 7,631	$ 8,167
2002	18	4,251
2003	–	1,445
2004	–	895
2005	–	745
Thereafter	–	7,506
	7,649	$ 23,009
Less amount representing interest	8	
Minimum lease payments	$ 7,641	

Senior Subordinated Notes

On October 5, 1998, the Company prepaid its $150,000, 8⅝% Senior Subordinated Notes due October 1, 2000, at 102.5% of their par value. The prepayment premium of $3,750 and the write-off of the remaining deferred debt offering costs of approximately $1,100 were included in interest expense in fiscal 1999.

4. Convertible Preferred Securities of Subsidiary

In November 1994, the Company and Best Buy Capital, L.P., a special-purpose limited partnership in which the Company was the sole general partner, completed the public offering of 4.6 million convertible monthly income preferred securities with a liquidation preference of $50 per security. The securities were convertible into shares of the Company's common stock at the rate of 4.444 shares per security (equivalent to a conversion price of $11.25 per share). In April 1998, substantially all of the preferred securities were converted into approximately 20.4 million shares of common stock. The remaining preferred securities were redeemed in June 1998 for cash of $671.

$ in thousands, except per share amounts

5. Shareholders' Equity

Stock Options

The Company currently sponsors two non-qualified stock option plans for employees and one non-qualified stock option plan for directors. These plans provide for the issuance of up to 48.8 million shares. Options may be granted only to employees or directors at option prices not less than the fair market value of the Company's common stock on the date of the grant. In addition, two plans expired in fiscal 1998 that still have outstanding options. At February 26, 2000, options to purchase 17.0 million shares were outstanding under all of these plans.

As permitted by SFAS No. 123, the Company has elected to account for its stock option plans under the provisions of APB Opinion No. 25. Accordingly, no compensation cost has generally been recognized for stock options granted. Had the Company adopted SFAS No. 123, the pro forma effects on net earnings, basic earnings per share and diluted earnings per share would have been as follows:

	2000	1999	1998
Net Earnings			
As reported	**$ 347,070**	$ 216,282	$ 81,938
Pro forma	**321,881**	201,257	76,099
Basic Earnings per Share			
As reported	**$ 1.70**	$ 1.09	$ .47
Pro forma	**1.58**	1.01	.43
Diluted Earnings per Share			
As reported	**$ 1.63**	$ 1.03	$ .46
Pro forma	**1.52**	.96	.43

The fair value of each option was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2000	1999	1998
Risk-free interest rate	**6.4%**	5.6%	6.8%
Expected dividend yield	**0%**	0%	0%
Expected stock price volatility	**50%**	50%	60%
Expected life of options	**4.5 years**	4.9 years	4.2 years

$ in thousands, except per share amounts

The weighted average fair value of options granted during fiscal 2000, 1999 and 1998 used in computing pro forma compensation expense was $25.59, $8.58 and $1.74 per share, respectively.

Option activity for the last three fiscal years was as follows:

	Shares	Weighted Average Exercise Price per Share
Outstanding March 1, 1997	16,900,000	$ 3.54
Granted	7,720,000	3.24
Exercised	(5,356,000)	2.78
Canceled	(2,520,000)	3.44
Outstanding February 28, 1998	16,744,000	3.66
Granted	9,423,000	17.27
Exercised	(4,909,000)	4.56
Canceled	(2,119,000)	9.74
Outstanding February 27, 1999	19,139,000	9.46
Granted	3,040,000	51.97
Exercised	(4,172,000)	7.75
Canceled	(961,000)	19.48
Outstanding February 26, 2000	17,046,000	16.89

Exercisable options at the end of fiscal 2000, 1999 and 1998 were 4.6 million, 5.0 million and 4.7 million, respectively. The following table summarizes information concerning options outstanding and exercisable as of February 26, 2000:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0 to $10	7,486,000	4.63	$ 3.06	3,515,000	$ 3.04
$10 to $20	6,567,000	8.16	17.18	1,017,000	17.16
$20 to $30	107,000	8.62	24.03	20,000	24.35
$30 to $40	33,000	8.86	32.03	8,000	32.03
$40 to $50	190,000	9.17	47.04	14,000	45.99
$50 to $60	2,631,000	9.15	52.25	51,000	52.58
$60 to $70	15,000	9.49	65.52	–	–
$70 to $80	17,000	9.48	73.27	–	–
$0 to $80	17,046,000	6.78	$ 16.89	4,625,000	$ 6.96

$ in thousands, except per share amounts

Earnings per Share

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share for fiscal 2000, 1999 and 1998:

	2000	1999	1998
Numerator:			
Net earnings	$ 347,070	$ 216,282	$ 81,938
Interest on preferred securities, net of tax	–	771	9,179
Net earnings assuming dilution	$ 347,070	$ 217,053	$ 91,117
Denominator (000s):			
Weighted average common shares outstanding	204,194	199,185	175,416
Effect of dilutive securities:			
Employee stock options	8,386	8,726	4,404
Preferred securities	–	2,095	20,431
Weighted average common shares outstanding assuming dilution	212,580	210,006	200,251
Basic earnings per share	$ 1.70	$ 1.09	$ .47
Diluted earnings per share	$ 1.63	$ 1.03	$ .46

Repurchase of Common Stock

In October 1998 and September 1999, the Company's Board of Directors authorized the purchases of up to $100,000 and $200,000, respectively, of the Company's common stock. These plans were completed with a total of 1.8 million and 3.8 million shares purchased and retired, respectively.

In February 2000, the Company's Board of Directors authorized the purchase of up to $400,000 of the Company's common stock from time to time through open market purchases. This plan has no stated expiration date. As of February 26, 2000, 1.9 million shares were purchased and retired at a cost of $100,000.

Other

Subsequent to year-end, the Company finalized a comprehensive strategic alliance with Microsoft Corp. In connection with the alliance, Microsoft purchased 3.9 million shares of the Company's common stock for $200,000.

$ in thousands, except per share amounts

6. Operating Lease Commitments and Related-Party Transactions

The Company currently owns the majority of its corporate headquarters facilities and conducts essentially all of its retail and the majority of its distribution operations from leased locations. Transaction costs associated with the sale and leaseback of properties and any gain or loss are recognized over the terms of the lease agreements. Proceeds from the sale and leaseback of properties are included in the net change in recoverable costs from developed properties. In addition to rent, the leases require payment of real estate taxes, insurance and common area maintenance. Most of the leases contain renewal options and escalation clauses, and several require contingent rents based on specified percentages of sales. Certain leases also contain covenants related to maintenance of financial ratios. The Company also leases various equipment under operating leases.

The composition of total rental expenses for all operating leases during the past three fiscal years, including leases of buildings and equipment, was as follows:

	2000	1999	1998
Minimum rentals	$ 227,500	$ 186,100	$ 161,500
Percentage rentals	500	500	400
	$ 228,000	$ 186,600	$ 161,900

As of February 26, 2000, three stores were leased from the Company's CEO and principal shareholder, or partnerships in which he is a partner. Rent under these leases during the past three fiscal years and one additional store, leased from his spouse, for which the lease expired in January 1998, was as follows:

	2000	1999	1998
Minimum rentals	$ 1,000	$ 800	$ 900
Percentage rentals	300	400	400
	$ 1,300	$ 1,200	$ 1,300

$ in thousands, except per share amounts

Future minimum lease obligations by year (not including percentage rentals) for all operating leases at February 26, 2000, were as follows:

Fiscal Year	
2001	$ 243,000
2002	237,000
2003	219,000
2004	208,000
2005	208,000
Thereafter	1,792,000

7. Benefit Plans

The Company has a retirement savings plan for employees meeting certain age and service requirements. The plan provides for a Company-matching contribution, which is subject to annual approval by the Company's Board of Directors. The matching contribution was $4,600, $3,100 and $2,100 in fiscal 2000, 1999 and 1998, respectively.

The Company also has a deferred compensation plan for certain management employees. The liability for compensation deferred under this plan was $18,900 and $8,400 at February 26, 2000 and February 27, 1999, respectively, and is included in long-term liabilities. The Company has elected to match its liability under the plan through the purchase of life insurance. The cash value of the insurance, which includes funding for future deferrals, was $26,500 and $14,200 in fiscal 2000 and 1999, respectively, and is included in other assets. Both the asset and the liability are carried at market value.

8. Income Taxes

The following is a reconciliation of income tax expense to the federal statutory tax rate:

	2000	**1999**	**1998**
Federal income tax at the statutory rate	**$ 196,899**	$ 123,087	$ 46,691
State income taxes, net of federal benefit	**22,503**	14,206	4,986
Tax-exempt interest	**(5,592)**	(3,232)	(1,038)
Other	**1,690**	1,334	826
Income tax expense	**$ 215,500**	$ 135,395	$ 51,465
Effective tax rate	**38.3%**	38.5%	38.6%

$ in thousands, except per share amounts

Income tax expense consists of the following:

		2000	1999	1998
Current:	Federal	$ 164,938	$ 120,892	$ 50,950
	State	21,329	15,252	5,487
		186,267	136,144	56,437
Deferred:	Federal	25,725	(665)	(4,509)
	State	3,508	(84)	(463)
		29,233	(749)	(4,972)
Income tax expense		$ 215,500	$ 135,395	$ 51,465

Deferred taxes are the result of differences between the basis of assets and liabilities for financial reporting and income tax purposes. Significant deferred tax assets and liabilities consist of the following:

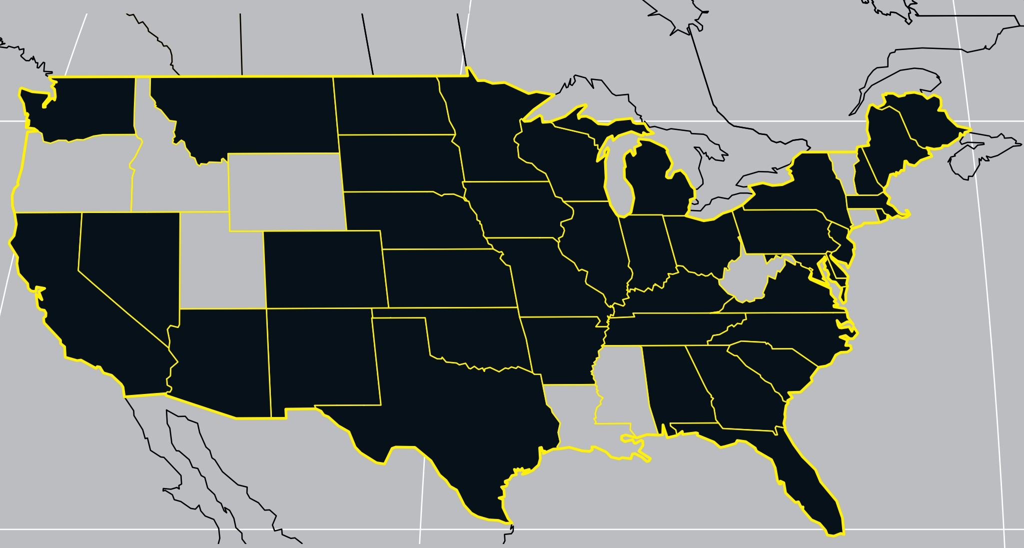
	Feb. 26 2000	Feb. 27 1999
Accrued expenses	$ 19,001	$ 15,690
Deferred revenues	25,009	23,284
Compensation and benefits	17,293	8,052
Other	2,763	4,608
Total deferred tax assets	64,066	51,634
Property and equipment	42,937	10,973
Inventory	15,639	2,215
Other	4,606	3,603
Total deferred tax liabilities	63,182	16,791
Net deferred tax assets	$ 884	$ 34,843

Income taxes paid (net of refunds) were $82,600, $84,000 and $12,700 in fiscal 2000, 1999 and 1998, respectively.

9. Legal Proceedings

The Company is involved in various legal proceedings arising during the normal course of conducting business. Management believes that the resolution of these proceedings will not have any material adverse impact on the Company's consolidated financial statements.

Best Buy Operates 357 Stores in 39 States



Store Count

Alabama	1
Arizona	9
Arkansas	3
California	39
Colorado	8
Delaware	1
Florida	26
Georgia	12
Illinois	32
Indiana	8
Iowa	5
Kansas	5
Kentucky	3
Maine	1
Maryland	11
Massachusetts	7
Michigan	17
Minnesota	16
Missouri	9
Montana	2
Nebraska	3
Nevada	3
New Hampshire	5
New Jersey	4
New Mexico	1
New York	3
North Carolina	10
North Dakota	1
Ohio	20
Oklahoma	3
Pennsylvania	11
Rhode Island	2
South Carolina	5
South Dakota	1
Tennessee	6
Texas	39
Virginia	12
Washington	1
Wisconsin	12

In fiscal 2001, Best Buy anticipates opening 60 new locations, including the metropolitan New York area.

Best Buy operates distribution centers (DCs) in Bloomington and Edina, Minn.; Ardmore, Okla., Staunton, Va.; Findlay, Ohio; and Dinuba, Calif. Our newest DC, in Dublin, Ga., will open in autumn 2000.

Company Information

General Information

Shareholders can obtain an immediate faxed copy of the most recent quarterly financial results by calling Company News On-Call, a division of PR Newswire, at (800) 758-5804. Best Buy's access number is 098313.

Visit our Web site for product information, Company background and current news: http://www.bestbuy.com

Or for copies of our recent press releases: http://www.prnewswire.com under "Company News On-Call"

Or write to: Best Buy Co., Inc.
Investor Relations Department
P.O. Box 9312
Minneapolis, MN 55440-9312

Form 10-K

The Annual Report as filed on Form 10-K with the Securities and Exchange Commission is available by calling: (952) 947-2621, or by writing to the above address.

General Counsel

Robins, Kaplan, Miller & Ciresi L.L.P.
Minneapolis, Minnesota

Annual Shareholders' Meeting

Thursday, June 22, 2000, 10 a.m.
The Minneapolis Institute of Arts
2400 Third Avenue South
Minneapolis, Minnesota

Transfer Agent

Inquiries regarding stock certificates, such as lost certificates, name changes and transfers of ownership, please contact Best Buy's transfer agent.

First Chicago Trust Company of New York (Equiserve)
P.O. Box 2500
Jersey City, NJ 07303-2500
E-mail: fctc@em.fcnbd.com
Phone: (800) 446-2617
Hearing impaired: (201) 222-4955
Web site: http://www.fctc.com

Independent Certified Public Accountants

Ernst & Young LLP
Minneapolis, Minnesota

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Retail Operations

Michael W. Zimmerman
Vice President -
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Online Stores

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Marketing

Weimin Lu
Vice President -
Technology

Daniel J. Moe
Vice President -
Merchandising

Scott E. Young
Vice President/General Manager -
Online Stores

Why We're

Focusing on core products, selling services to connect them, developing content (entertainment, educational and informational resources) and using our experience to influence manufacturers—that's how Best Buy is delivering innovative entertainment and technology packages, rather than providing simple commodity transactions.

We're accelerating the process and taking an active role in making sure that technologies are brought to market. Because at the end of the day, it's all about our customers.

Innovate Accelerate

Successful