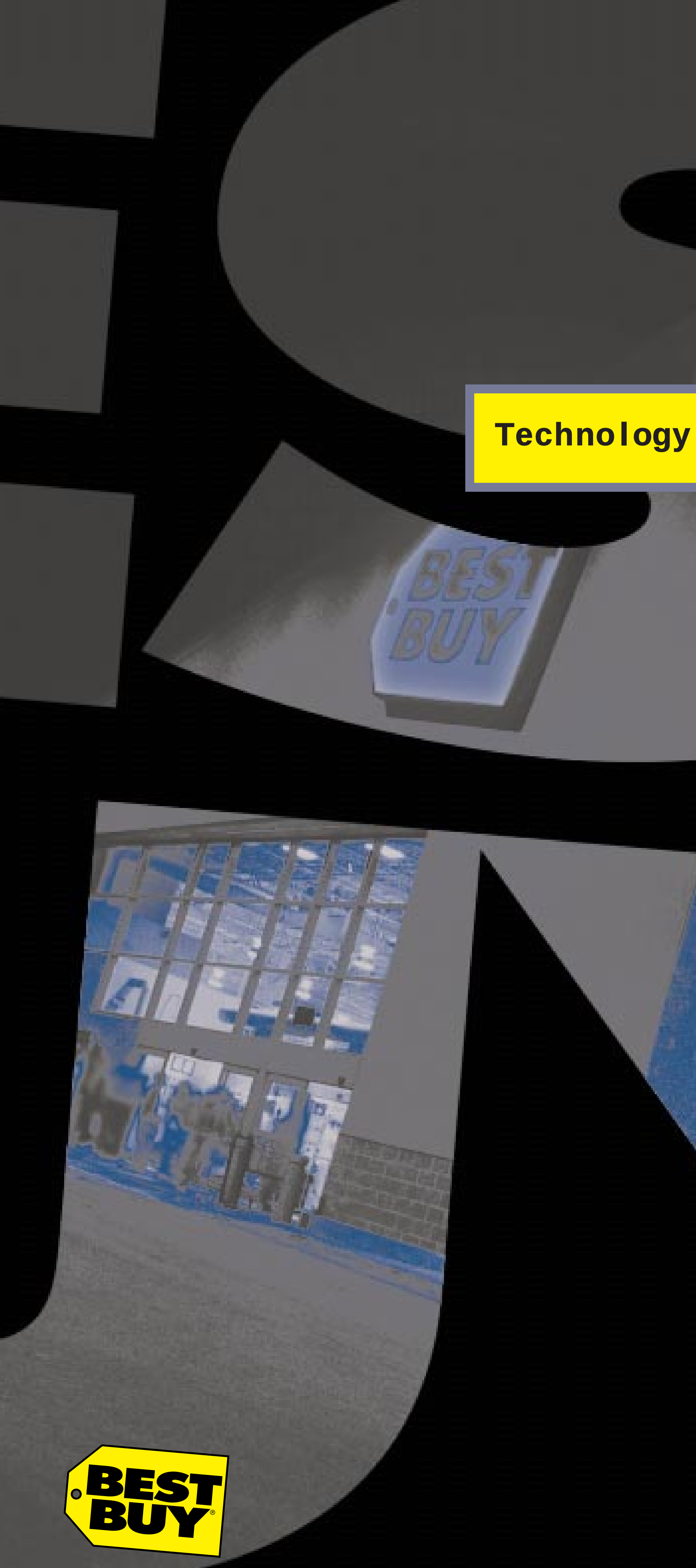


Technology

Fiscal 1999 Annual Report

Who We Are

Best Buy is the Nation's Leading Specialty Retailer of Name Brand Consumer Electronics, Personal Computers, Entertainment Software and Appliances

It is our vision to meet our customers at the intersection of technology and life.

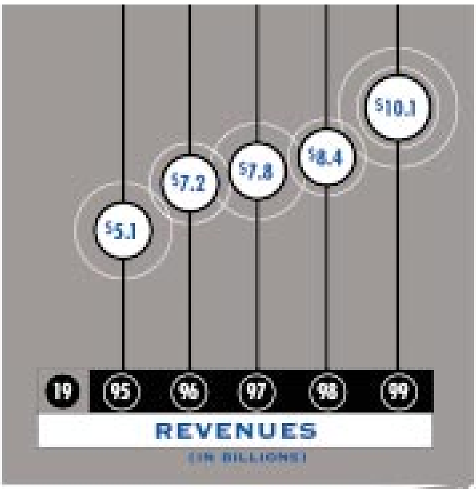
Table of Contents

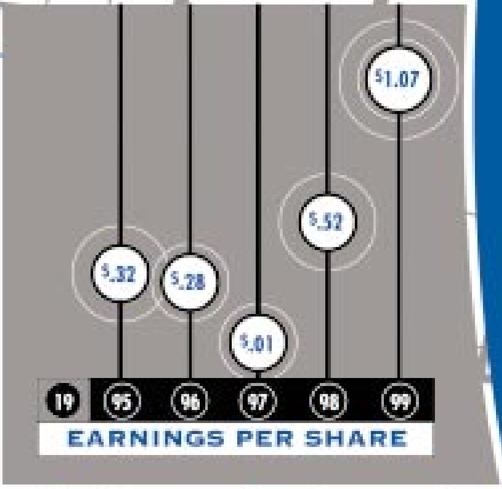
What a Year!

The past 10 years have been the Company's most active, with growth from $500 million in annual revenues to more than $10 billion today.

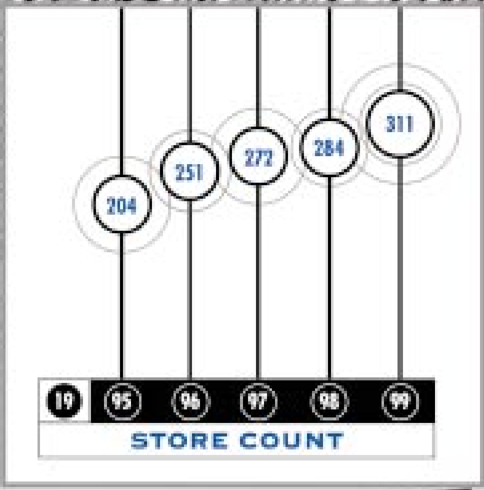
- Over $10 billion in revenues
- Two 2-for-1 stock splits in the past 10 months
- Record earnings of $224 million, a 138% increase over FY '98
- Exceeded $10 billion in market capitalization
- Over $1 billion in shareholders' equity

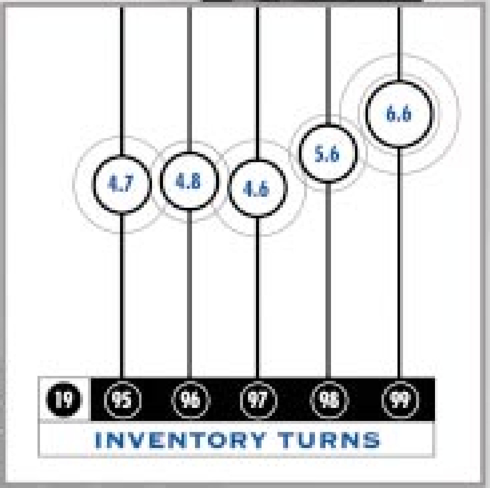
Financial Highlights



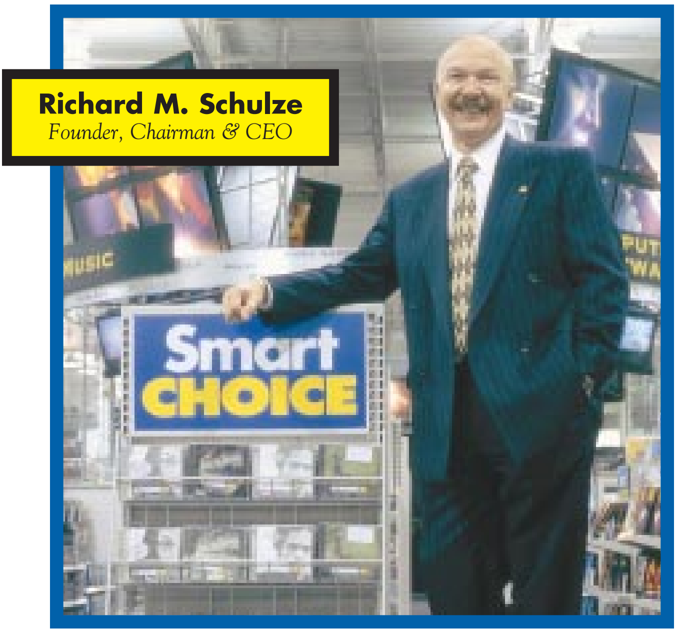


All per share amounts have been restated for the March 1999, 2-for-1 stock split.





All year-end stock prices have been restated for the March 1999, 2-for-1 stock split.



TO OUR SHAREHOLDERS, EMPLOYEES, CUSTOMERS AND VENDORS:

This has been the most successful year in the Company's 33-year history. We have achieved many company milestones this year through the efforts of our dedicated employees, as well as the continued support of our supplier community.

I am extremely pleased to report that in fiscal 1999 Best Buy attained record revenues of more than $10 billion, earnings of $224 million – a 138% increase – and our market capitalization exceeded $10 billion. During the past calendar year, our per-share stock price improved by 233%, ranking second in "highest total return to investors," according to Fortune magazine. In May 1998 and March 1999, we were able to provide our shareholders a two-for-one stock split, both in the form of a 100% dividend.

We clearly surpassed our goals for fiscal 1999 as we concentrated on sustaining the momentum from our fiscal 1998 strategic initiatives – capitalizing upon our Process to Profits program, enhancing our retail operations and refining our inventory management skills. It has been a truly exciting year for everyone at Best Buy.

FISCAL 1999 INITIATIVES

Our organization's continued focus on turning strategic initiatives into positive results, combined with strong consumer spending throughout the year, produced a 13.5% increase in comparable store sales and an improvement in operating income to 3.6% of sales. Overall revenue increased 21% to a record $10.1 billion. Earnings were $224.4 million for the year, with earnings per share of $1.07 on a diluted basis. This compares to $94.5 million, or 52 cents per share, last year.

Our cash position increased significantly to over $780 million at year end, reflecting improvements in both operating profits and our inventory management systems. Inventories remained level with last year despite 28 new stores and a double-digit comparable store sales increase. For the second consecutive year we have increased our inventory turns by one full turn to 6.6 times, while also providing our customers an improved in-stock level.

These continued advancements by our Inventory team have allowed us to retire substantially all of the Company's debt and have helped create our strong cash position.

Fiscal 1998's success initiated a more aggressive growth plan during fiscal 1999. We opened 28 new stores and entered the New England market for the first time with eight locations, producing the strongest new market opening in our history.

In fiscal 1999, we introduced Concept IV, an evolution of our successful retail strategy. The Concept IV stores help make technology easy to understand in this more complex digital age by having departments grouped by lifestyle category with more focused employee interaction. Innovative displays featuring music, movies, Digital Versatile Disc (DVD), computer software and video games position us as the most customer-friendly retailer in the consumer electronics industry. The new format reinforces our brand position as the destination for new technology in a fun, informative and no-pressure shopping environment.

I am extremely proud of the gains we have made this past year and our continuing commitment to achieve "Best Practices" in all of our operating processes. We are developing the knowledge and skills it will take to not only be the industry leader but be among the very best in all of specialty retailing.

FOCUS ON SHAREHOLDER VALUE

In October, we announced the adoption of the Economic Value Added (EVA®) management and incentive system from Stern Stewart & Co. We believe use of EVA will continue to improve decision-making and help us undertake investments that will maximize shareholder return. By fostering our entrepreneurial culture and guiding our management to think more like shareholders, we expect to enhance the overall return on invested capital.

We believe this system will improve Best Buy's ability to become a world-class organization that delivers substantial value to our customers, shareholders and employees. Consistent with our focus on the creation of shareholder value, we will begin utilizing EVA as a primary performance measure for our senior management incentive compensation program in fiscal 2000.

Our significantly enhanced financial position and improved store operating model provide us with many opportunities. We expect to increase our store growth, introduce new digital products to our customers in a unique and exciting way, invest in development of our e-commerce business and improve our information systems and customer service capabilities.

EXPANDING OUR NATIONAL PRESENCE

One of the most important initiatives for the upcoming fiscal year is an aggressive expansion strategy that will produce approximately 45 new Best Buy stores across the country. Our current financial position provides the working capital to expand into the new markets of San Francisco, San Diego and Sacramento, California; as well as Norfolk and Richmond, Virginia. These stores, along with openings in many existing markets, will enhance our level of service and national presence. To support our increased expansion plans, we will be increasing training for employee and management development at all levels.

Included in our expansion strategy is a plan to test a new small-market store. These stores are designed to serve consumers in communities with populations less than 200,000. While slightly smaller in size than current stores (30,000 versus 45,000 square feet), these small-market stores will offer a meaningful merchandise selection from all four of our main business segments and knowledgeable service consistent with the standards established in our existing, larger locations.

THE CHANGING RETAIL LANDSCAPE

The future, however, holds far more for Best Buy than an increased number and format of retail stores. The coming year will bring many opportunities that we must fully embrace in order to maintain our momentum and remain the customer's choice for purchasing new technology in the next century.

Our goal is to complement our existing retail franchise and the brand awareness it has achieved with the evolving retail marketplace. A prime example is implementing an Internet business strategy. We believe this will become an increasingly important avenue for developing customer loyalty. As more aspects of daily life are accommodated over the Internet, the potential of our Web site (www.bestbuy.com) is boundless. Having launched an online music store and added a full selection of DVD software, Best Buy is positioning itself to bring more products and services to our customers.

THE DIGITAL REVOLUTION

The digital age brings new opportunities for us to provide consumers with solutions they need to integrate new product technologies into their lives. Our vision is to be "at the intersection of Technology and Life." Our new stores are merchandised to demonstrate the benefits of emerging technology products to our customers.

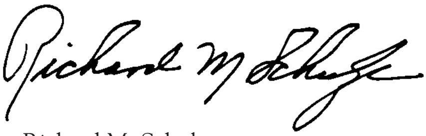
As the consumers' preferred place to shop for new technologies, such as DVD, Best Buy has emerged as the industry leader. We are the number one retailer of DVD products based on overall market share. DVD, digital television (DTV), digital cameras and camcorders, digital phones and scanners are all expected to provide increasing opportunities for our industry. We are confident we can lead the industry in selling tomorrow's complex products. DTV represents the greatest opportunity, and we are committed to becoming the consumers' destination of choice for DTV.

BEING THE BEST

Being the best is a value that personifies Best Buy and our employees. By striving to be the best in every facet of business, we succeeded in building on the strategic initiatives outlined for the Company's direction this year. Our commitment to become a "Learning Organization" has been a vital step in this process and has served to motivate our employees to be the best in the industry. The commitment of our employees has been the cornerstone of our growth and will continue to drive our success into the next millennium.

We are extremely excited about the coming year and believe we have built a strong foundation. Our progress to date includes process improvements, employee development, industry-leading financial performance, an exciting new store presentation and a strong financial position. These achievements heighten our confidence in our ability to achieve annual earnings growth and return on equity for our shareholders that positions Best Buy to join the very best in American specialty retail.

We truly believe we will improve people's lives by making technology and entertainment products affordable and easy to use. This mission will help us focus on providing our customers with the best shopping experience available while we continue to develop our employees and to improve shareholder value.



Richard M. Schulze
Founder, Chairman & CEO

Being the Best

During the Company's 33-year history,
Best Buy has evolved its store format
and product lines to reflect the latest technologies
and changing shopping habits.
Best Buy has reinvented the way customers shop
for consumer electronics.
Our non-commissioned product specialists
help make shopping easy and fun.
"Being the Best" is a value that personifies our Company.
It is what enables us to anticipate
customers' changing needs.

CONSUMER'S CHOICE

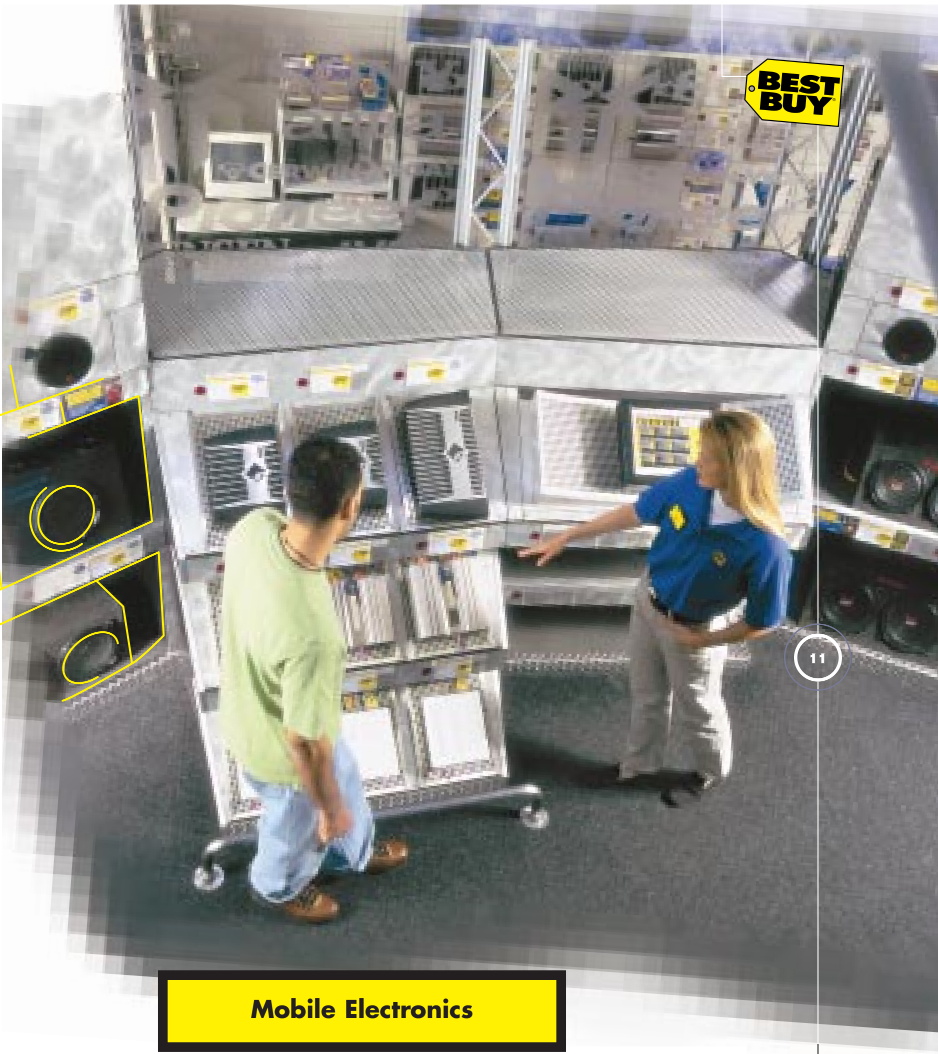
Our goal is to make it easy for our customers to choose entertainment and technology products that will improve their lives. Our stores are designed to demonstrate this technology through entertaining, interactive displays that customers enjoy. **Dedicated service areas**, expertly trained staff and **clean product merchandising** make shopping at Best Buy fun and easy.

Music & Movies

Audio & Video

PERSONALIZED SYSTEMS

Audio and video products are combined within our new Home Theater department. Expert product specialists help customers turn their living rooms into personal home theaters. This department helps customers build a system that meets their needs.



Mobile Electronics

FOR THE ENTHUSIAST

Specialized Car Audio "Boom Rooms" have been added to many of our stores to experience speaker capabilities. Our popular virtual car demonstrates true car audio sound through different speaker options. The true audio enthusiast can make an informed decision after hearing all of the options available.

HANDS-ON EXPERIENCE

Best Buy stores offer customers the opportunity to sample entertainment software before they make a purchase. Music, movies, DVD, computer software and video game displays are a focal point at the center of each store.

Entertainment Software

Interactive Displays

SUCCESS THROUGH FEEDBACK

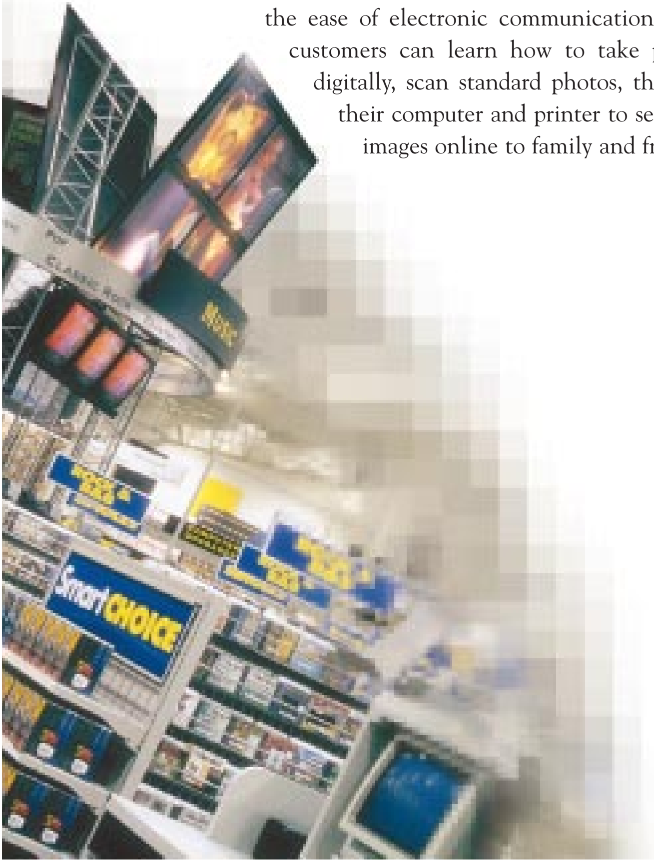
Every month, the Gallup Organization contacts more than 10,000 customers for feedback about their shopping experiences. In other research, our customers tell us Best Buy is the most customer-friendly retailer in the consumer electronics business.

Customer-Friendly Layout

Expertly Trained Staff

WE MAKE IT EASY

Our newest Best Buy stores combine products by lifestyle category. For instance, Digital Imaging displays integrate a personal computer, digital camera or scanner, and printer to show customers the ease of electronic communications. Our customers can learn how to take photos digitally, scan standard photos, then use their computer and printer to send the images online to family and friends.



THE DIGITAL REVOLUTION

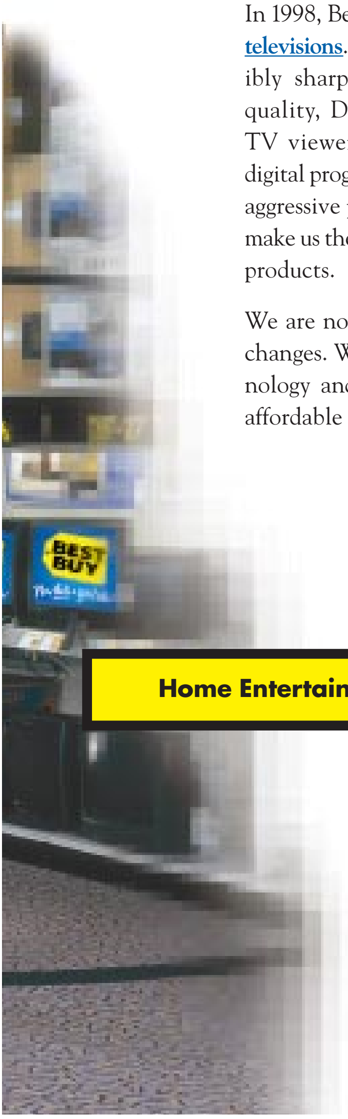
The digital age is upon us. New technologies are changing the way consumers shop for traditional products such as televisions, telephones and cameras. The digital revolution is driven by technology's ability to provide new levels of speed, convenience and product integration. Items such as personal digital assistants – electronic organizers with computer interface capabilities – and digital cellular telephones help Best Buy customers organize their lives.

Digital technology is revolutionizing home entertainment, too. Sales of DVD players, which play video and audio discs, and movie titles have soared beyond the highest projections. Consumers are discovering the quality and convenience of the DVD format. DVD currently maintains a mere 1% of U.S. market penetration, highlighting the tremendous growth potential of this technology.

INTEGRATING TECHNOLOGY AND LIFE

In 1998, Best Buy began actively marketing **digital televisions**. With digital surround sound and incredibly sharp, almost three-dimensional picture quality, DTV is capturing the imagination of TV viewers throughout the country. As more digital programming becomes available, Best Buy's aggressive pursuit of this emerging market should make us the place to shop for digital entertainment products.

We are not content to merely keep up with the changes. We are leading the integration of technology and life by making these new products affordable and easy to use.



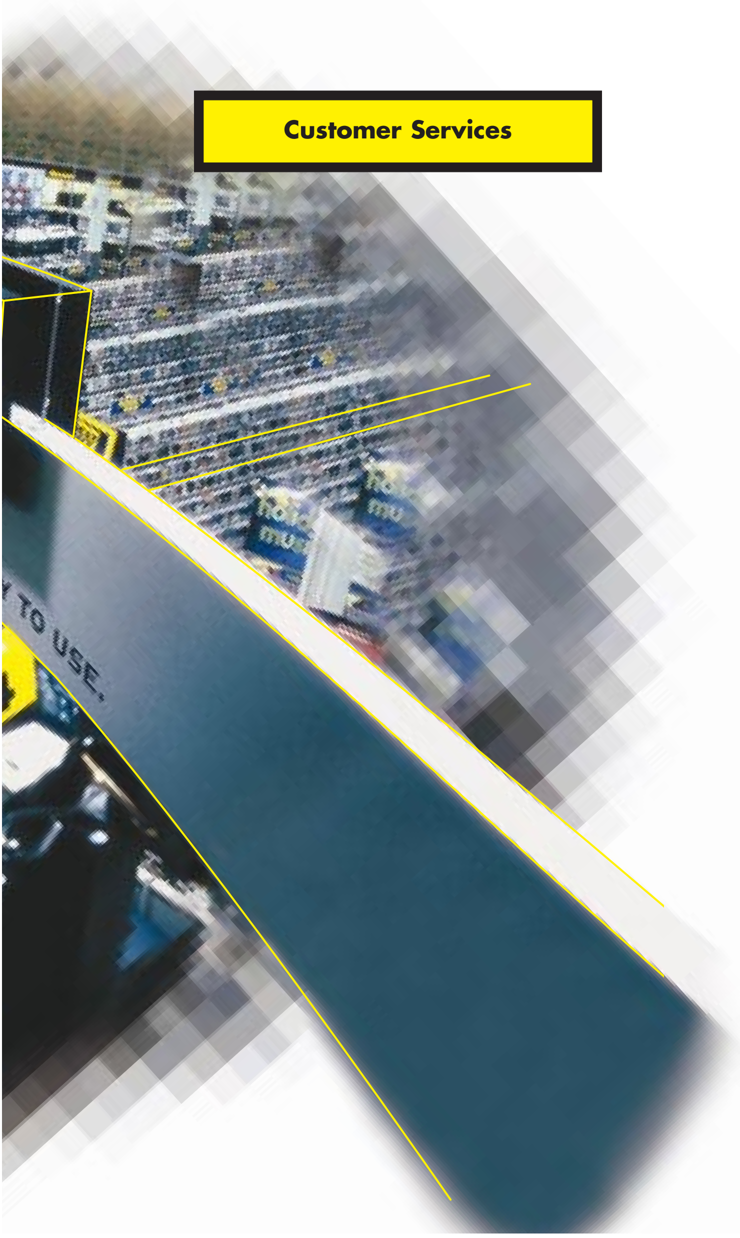
Home Entertainment

Professional Installation

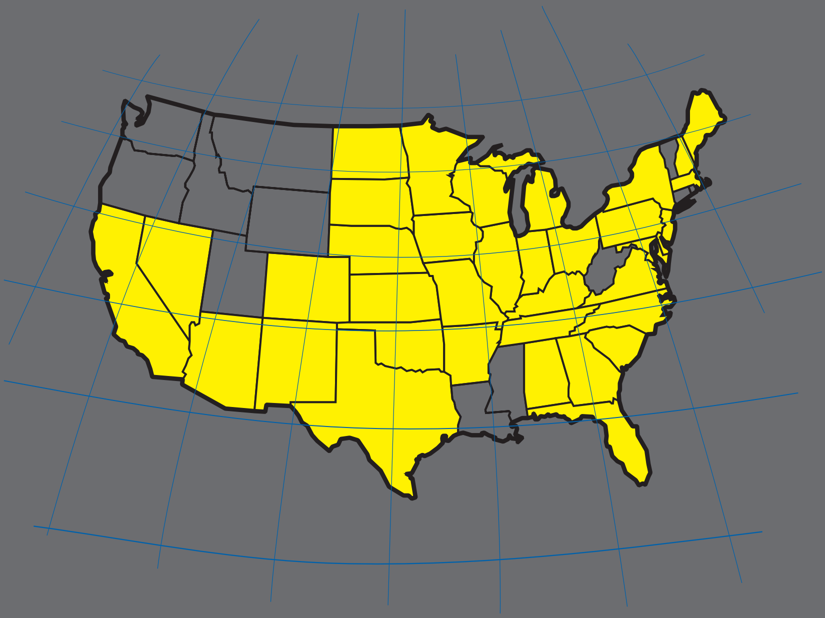
BEYOND THE SALE

A total Best Buy experience shouldn't end at the register. Our service focus includes in-store installations, maintenance, repair, upgrades and information, as well as in-home set up and repair. Best Buy strives to ensure that customers are pleased with their purchases. In the coming year, we are dedicated to continuously improving our service levels. In partnership with Andersen Consulting LLP, we have developed a two-year program to reduce our service repair time and better integrate our service areas with our retail operations.

Customer Services



Best Buy operates **311** stores in **36** states.



Store Count By State

Alabama	1	Kentucky	2	New York	1
Arizona	8	Maine	1	North Carolina	9
Arkansas	3	Maryland	10	North Dakota	1
California	29	Massachusetts	4	Ohio	19
Colorado	8	Michigan	17	Oklahoma	3
Delaware	1	Minnesota	14	Pennsylvania	10
Florida	21	Missouri	9	South Carolina	5
Georgia	10	Nebraska	3	South Dakota	1
Illinois	32	Nevada	2	Tennessee	6
Indiana	8	New Hampshire	3	Texas	36
Iowa	5	New Jersey	4	Virginia	7
Kansas	5	New Mexico	1	Wisconsin	12

In FY '00, Best Buy anticipates opening **45** new locations, including the major markets of San Francisco, CA and Richmond, VA.

Extraordinary Growth

Building Shareholder Value

We believe that our primary objective is to build shareholder value. This year we are implementing Economic Value Added (EVA) to measure, manage, and motivate value creation. We will integrate EVA into our planning and decision making. Our employee compensation will hinge on EVA performance, and our initiatives and capital investments will be judged on their contribution to EVA.

Fiscal Year	Total Stores
FY 86	12
FY 87	24
FY 88	40
FY 89	41
FY 90	49
FY 91	56
FY 92	73
FY 93	111
FY 94	151
FY 95	204
FY 96	251
FY 97	272
FY 98	284
FY 99	311

Life

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

what we stand for

UNWAVERING ETHICS

Honesty and Integrity
Respect for our Customers, our Communities and our fellow Employees

EXTRAORDINARY GROWTH

For our Company, our Employees and our Shareholders
Discovery and Learning
Embracing Speed and Change

BEING THE BEST

Having Fun while Being the Best

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

$ in thousands, except per share amounts

Fiscal Period[1]	1999	1998	1997	1996	1995
Statement of Earnings Data					
Revenues	$ 10,077,906	$ 8,358,212	$ 7,770,683	$ 7,217,448	$ 5,079,557
Gross profit	1,827,783	1,332,138	1,058,881	936,571	690,393
Selling, general and administrative expenses	1,463,281	1,145,280	1,005,675	813,988	568,466
Operating income	364,502	186,858	53,206	122,583	121,927
Earnings before cumulative effect of accounting change	224,437	94,453	1,748	48,019	57,651
Net earnings (loss)	224,437	94,453	1,748	48,019	57,651
Per Share Data[2]					
Earnings before cumulative effect of accounting change	$ 1.07	$ .52	$ .01	$ .28	$ .32
Net earnings (loss)	1.07	.52	.01	.28	.32
Common stock price: High	49	15 19/64	6 9/16	7 13/32	11 5/16
Low	14 3/4	2 5/32	1 31/32	3 3/16	5 17/32
Operating and Other Data					
Comparable store sales change[3]	13.5%	2.0%	(4.7%)	5.5%	19.9%
Number of stores (end of period)	311	284	272	251	204
Average revenues per store[4]	$ 33,700	$ 29,700	$ 29,300	$ 31,100	$ 28,400
Gross profit percentage	18.1%	15.9%	13.6%	13.0%	13.6%
Selling, general and administrative expense percentage	14.5%	13.7%	12.9%	11.3%	11.2%
Operating income percentage	3.6%	2.2%	.7%	1.7%	2.4%
Inventory turns[5]	6.6x	5.6x	4.6x	4.8x	4.7x
Balance Sheet Data (at period end)					
Working capital	$ 676,184	$ 676,601	$ 567,456	$ 586,841	$ 609,049
Total assets	2,512,493	2,056,346	1,734,307	1,890,832	1,507,125
Long-term debt, including current portion	60,597	225,322	238,016	229,855	240,965
Convertible preferred securities	—	229,854	230,000	230,000	230,000
Shareholders' equity	1,064,134	557,746	438,315	431,614	376,122

This table should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition, beginning on page 22, and the Consolidated Financial Statements and Notes, beginning on page 29.

(1) Fiscal 1990 contained approximately 11 months because the Company changed its fiscal year to a 52/53 week period ending on the Saturday nearest the end of February. Fiscal 1996 contained 53 weeks. All other periods presented contained 52 weeks.

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

(3) Comparable stores are stores open at least 14 full months.

(4) Average revenues per store are 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 1994, the Company adopted SFAS No. 109, "Accounting for Income Taxes," resulting in a cumulative effect adjustment of ($425) or ($.01) per share.

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

1994[6]	1993	1992	1991[7]	1990
$ 3,006,534	$ 1,619,978	$ 929,692	$ 664,823	$ 512,850
456,925	284,034	181,062	141,657	120,341
379,747	248,126	162,286	130,681	107,194
77,178	35,908	18,776	10,976	13,147
41,710	19,855	9,601	4,540	5,683
41,285	19,855	9,601	(9,457)	5,683
$ .26	$ .14	$ .08	$ .05	$ .06
.25	.14	.08	(.10)	.06
7 55/64	3 59/64	2 61/64	59/64	47/64
2 23/32	1 11/64	43/64	3/8	15/32
26.9%	19.4%	14.0%	1.0%	.3%
151	111	73	56	49
$ 22,600	$ 17,600	$ 14,300	$ 12,400	$ 11,500
15.2%	17.5%	19.5%	21.3%	23.5%
12.6%	15.3%	17.5%	19.7%	20.9%
2.6%	2.2%	2.0%	1.6%	2.6%
5.0x	4.8x	5.1x	4.5x	3.7x
$ 362,582	$ 118,921	$ 126,817	$ 64,623	$ 78,398
952,494	439,142	337,218	185,528	156,787
219,710	53,870	52,980	35,695	35,283
—	—	—	—	—
311,444	182,283	157,568	56,741	66,150

RESULTS OF OPERATIONS

Fiscal 1999 was an outstanding year, as the Company surpassed $10 billion in revenues and generated record earnings. For the fiscal year ended February 27, 1999, earnings were $224.4 million, compared to $94.5 million in fiscal 1998 and $1.7 million in fiscal 1997. Earnings per share on a diluted basis were $1.07 in fiscal 1999, $.52 in fiscal 1998 and $.01 in fiscal 1997, and reflect two-for-one stock splits on March 18, 1999 and May 26, 1998. The record results can be attributed to the success of initiatives to increase profitability through improvements in inventory management, retail operations and marketing execution. These improvements enabled the Company to effectively capitalize on strong consumer spending in fiscal 1999, nearly doubling operating income over fiscal 1998 to $365 million. In addition, in fiscal 1999, the Company reduced its long-term debt by more than $380 million, contributing to a decrease in net interest of $33 million as compared to the previous year.

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

	1999	1998	1997
Revenues	$ 10,077,906	$ 8,358,212	$ 7,770,683
Percentage increase in revenues	21%	8%	8%
Comparable store sales change	13.5%	2.0%	(4.7%)
Average revenues per store	$ 33,700	$ 29,700	$ 29,300

Sales in fiscal 1999 increased 21% to $10.078 billion, compared to $8.358 billion in fiscal 1998, principally due to the 13.5% increase in comparable store sales, the addition of 28 new stores and a full year of operations at the 13 stores opened in fiscal 1998. The comparable store sales gain was the result of strong consumer spending, market share gains and improvements in the Company's operating model. Double-digit comparable store sales gains occurred in each quarter of fiscal 1999 as all major categories generated comparable store sales increases. Increased affordability of products, including personal computers and consumer electronics, contributed to the sales increase along with strong consumer response to new technology such as Digital Versatile Disc (DVD), digital phones and digital cameras. The Company gained market share in fiscal 1999 as a result of more effective advertising, better product in-stock positions and a more customer-focused product assortment, as well as the continued consolidation and closing of competing retailers. New stores opened in fiscal 1999 included entry into the New England market with eight stores; Nashville, TN, with three stores; and one store each in Syracuse, NY; Charleston, SC; and Wausau, WI. The other new stores were opened in existing markets.

Fiscal 1998 sales were 8% higher than the $7.771 billion reported in fiscal 1997, as comparable store sales increased 2.0% and results for the year included 13 new stores and a full year of operations at the 21 stores opened in fiscal 1997. The comparable store sales gain was the result of increased consumer demand, particularly in the second half of the year, as well as improved retail selling strategies. Increased sales of entertainment software due to new technology in video games and consumer demand for new titles in both recorded music and computer software also contributed to the comparable store sales increase in fiscal 1998.

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

	1999	1998	1997
Home Office	36%	38%	39%
Consumer Electronics - Video	16%	15%	17%
Consumer Electronics - Audio	11%	11%	12%
Entertainment Software	20%	20%	18%
Appliances	8%	9%	9%
Other	9%	7%	5%
Total	100%	100%	100%

Sales in the home office product category continued to grow in fiscal 1999, although the category declined from 38% of total sales in fiscal 1998 to 36% in fiscal 1999. Sales of personal computers increased over the previous year as an increase in units sold more than offset the 16% decline in average selling price. The introduction of computer packages below $1,000 and the increasing popularity of the Internet attracted new, as well as second-time, computer buyers. More effective management of the transition to new models led to a product offering that better satisfied consumer demand. Higher unit volumes, combined with improved merchandising and selling strategies, resulted in higher sales of the additional products and services that complement the sale of computer hardware and generate additional profit from the computer sale transaction. The Company's new configure-to-order process for personal computers enabled expansion of the computer assortment to satisfy more knowledgeable computer buyers. Increased sales of digital phones, pagers and other new technology products were also factors in the overall increase in this category.

Sales of digital technology and products that enhance the consumer's home theater experience drove the video and audio product categories' sales growth in fiscal 1999. Sales of televisions, particularly big-screen televisions which became more affordable in fiscal 1999 as unit prices decreased, generated double-digit comparable store sales increases as consumers sought a richer listening and viewing experience. Camcorder and digital satellite system sales increased in fiscal 1999 driven by lower selling prices, product improvements and sales assistance provided to the customer in the stores' "high touch" sales area. Lower selling prices and an increased assortment of DVD movie titles resulted in rapid consumer acceptance of DVD hardware. DVD represents one of the initial products in consumer electronics to transition from analog to digital technology. The Company introduced Digital Television (DTV) to its customers in selected markets in fiscal 1999. DTV represents a significant opportunity for future growth, although the high initial selling prices for this new technology will likely result in only a minimal impact on total sales in fiscal 2000.

Sales of entertainment software, which includes recorded music and movies, computer software and video games, maintained its sales growth rate with a 24% increase in sales in fiscal 1999 as compared to fiscal 1998. Sales of recorded music were driven by a higher demand for new releases. Sales of DVD movies and video game software and equipment also contributed to the overall sales increase. Strong new movie releases such as "Titanic" also contributed to the sales gains. DVD software sales grew significantly in fiscal 1999 due to the increase in DVD players sold and the growth in available DVD titles from 500 to over 1,500. Video game software and peripherals sales increased as a result of the continued growth of the Nintendo 64 and Sony Playstation formats. The Company also began selling recorded music and DVD movies on its Internet shopping site in fiscal 1999. While not generating significant sales volume, management believes the Internet is another revenue growth opportunity.

The major appliance product category generated a double-digit comparable store sales increase in fiscal 1999, performing better than the industry as a whole. The addition of the Whirlpool appliance line in the second quarter of fiscal 1999 strengthened the Company's appliance assortment. A strong economy, faster product turns and better service levels all contributed to increased sales.

The "other" category includes sales of Performance Service Plans (PSPs), which increased from 3.0% of sales in fiscal 1998 to 3.7% of sales in fiscal 1999 as a result of the continued focus on the presentation of plans to customers and higher product sales across all categories. Higher quality, more affordable digital cameras, the expansion of the Company's ready-to-assemble furniture assortment and better merchandising of consumables, such as blank tapes, also contributed to the overall sales gains in this category.

Components of Operating Income

The following table shows selected operating ratios as a percentage of sales for the last three fiscal years.

	1999	1998	1997
Gross profit margin	18.1%	15.9%	13.6%
Selling, general and administrative expenses	14.5%	13.7%	12.9%
Operating income	3.6%	2.2%	.7%

Gross profit margin was 18.1% of sales in fiscal 1999, an improvement of 2.2% of sales from fiscal 1998. This increase was mainly due to the impact from initiatives to generate a more profitable product assortment, faster turning inventory and increased advertising effectiveness. For the second consecutive year, inventory turns increased by one full turn, to 6.6 turns in fiscal 1999 compared to 5.6 turns in fiscal 1998 and 4.6 turns in fiscal 1997. This increase in inventory turns resulted in fewer markdowns, particularly during product model transitions. The increase in sales of higher margin PSPs also contributed to the improvement in gross profit margin. Another factor in the gross profit margin improvement was lower inventory shrink as a result of better execution at the retail stores. The Company anticipates further improvement in the gross profit margin rate in fiscal 2000 as it continues to realize benefits from its strategic initiatives, although the rate of gross profit margin improvement will be less than the significant increases in the past two years.

Gross profit margin of 15.9% in fiscal 1998 improved from 13.6% in fiscal 1997, a gain that was driven by greatly improved inventory management, particularly in the personal computer product category. A less promotionally driven sales environment, lower inventory shrink and an increase in sales of PSPs also contributed to the gross margin improvement.

Selling, general and administrative expenses (SG&A) increased to 14.5% of sales in fiscal 1999 compared to 13.7% of sales in fiscal 1998, primarily as a result of higher payroll-related expenses and an increase in professional services. The increase in payroll-related expenses was primarily due to an increase in overall financial performance-based compensation, higher levels of compensation resulting from building a higher caliber staff at the retail stores and labor market conditions. Additionally, a full year operation of the retail stores' "high touch" area and expenses associated with an increased number of store openings contributed to higher personnel costs. Professional services costs increased due to the Company's initiatives to improve operating performance and implement business process improvements. The Company also increased its spending on outside consultants to help improve technical services operations and enhance management training and development. The Company's spending on Year 2000 system issues also increased in fiscal 1999. Management believes that the investment in strategic initiatives has improved the Company's operating model and has resulted in the gross profit margin gains. The returns from the increased investment in SG&A are reflected in the improvement in operating income to 3.6% of sales in fiscal 1999 from 2.2% in fiscal 1998.

SG&A is anticipated to increase in fiscal 2000 as the Company continues to invest in new information systems, operational improvements, technical services enhancements and its e-commerce initiative. The outside consultants that had been assisting the Company with its retail and marketing initiatives over the past three years have been engaged in a multi-year project to improve the operations and financial performance of the Company's service division. Management expects the additional investment in SG&A will be adequately funded by the anticipated increase in gross profit margin.

The increase in the SG&A ratio in fiscal 1998 compared to fiscal 1997 also was due primarily to higher levels of compensation and professional services. Compensation increased due to a tight labor market and the introduction of the dedicated staff in the "high touch" area of the stores. Professional service expenses were incurred to improve marketing effectiveness and retail operations, in addition to addressing Year 2000 system issues.

Net interest improved by $33 million in fiscal 1999 as compared to fiscal 1998, in part due to the conversion of the Company's $230 million in preferred securities into equity in the first quarter of fiscal 1999. Improvements in inventory management and strong sales enabled the Company to build significant cash balances and prepay its $150 million 8-5/8% Senior Subordinated Notes in October 1998. The prepayment premium of $3.8 million and the write-off of the remaining deferred debt offering costs of approximately $1.1 million are included in interest expense. The conversion and retirement of these two long-term financings reduces interest expense by about $28 million annually. In addition, the higher cash balances generated increased interest income.

The Company's effective income tax rate in fiscal 1999 was 38.5%, basically unchanged compared to 38.6% in fiscal 1998 and down from 39.0% in fiscal 1997. The Company's effective tax rate is impacted by changes in the taxability of investment income and state income tax rates.

LIQUIDITY AND CAPITAL RESOURCES

The Company significantly improved its financial position and liquidity in fiscal 1999 as a result of strong earnings growth and continued improvement in inventory management. The Company used the cash generated from operations to repay debt and fund capital spending while increasing cash and cash equivalents by $266 million. The conversion of preferred securities into common stock contributed to the Company surpassing $1 billion in shareholders' equity.

Inventories of just over $1 billion at the end of fiscal 1999 were essentially unchanged from the previous year-end even with the operation of 28 new stores and higher sales volumes, due to improved inventory management. Owned inventory (inventory net of accounts payable) also improved as a result of faster inventory turns.

Trade receivables, mainly credit card and vendor-related receivables, increased $37 million due to an increase in volume in the fourth quarter of fiscal 1999, as sales increased 21% over the previous year. 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 as a result of insurance policies purchased in connection with the Company's deferred compensation plan, established in fiscal 1999.

Trade payables increased, as compared to the previous year-end, due to increased business volume. Accrued liabilities increased compared to the previous year-end as a result of expenses associated with higher performance-based compensation related to the strong financial performance in fiscal 1999, the higher levels of business activity and expenses for the Company's strategic initiatives.

The increase in long-term liabilities was principally the result of the excess of rent expense for accounting purposes over cash paid and the newly established deferred compensation plan. Deferred service plan revenue declined by $17 million as deferred revenues related to service plans sold prior to the fourth quarter of fiscal 1996, when the Company began insuring these obligations, were recognized. Revenues from PSP sales from that time forward are recognized when a sale is consummated, rather than over the life of the contract. The remaining $5.6 million of deferred revenue will be recognized in fiscal 2000.

Capital spending in fiscal 1999 was $166 million, compared to $72 million in fiscal 1998 and $88 million in fiscal 1997. The Company increased its expansion program in fiscal 1999 after the initiatives to improve operations resulted in an enhanced operating model. In addition to opening 28 new stores and remodeling or relocating five new stores in fiscal 1999, the Company began development of approximately 45 stores scheduled to open in fiscal 2000. The majority of the stores opened in fiscal 1999 incorporated the features of the Company's new Concept IV store format. This new format, while retaining the 45,000-square-foot size, features improved merchandising, signage and customer service and is expected to better address consumers needs as the industry progresses into new digital products. The Company also continued to invest in its information systems and distribution facilities to support growing business requirements.

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

Store Prototype	1999	1998	1997
28,000 square feet	43	48	54
36,000 square feet	34	34	34
45,000 square feet	182	150	132
58,000 square feet	52	52	52
Total number of stores at year end	311	284	272
Average store size (in square feet)	43,700	43,200	42,800

The Company's practice is to lease rather than own real estate; however, for those sites developed using working capital, the Company sells and leases 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. Based on the number of store openings in both fiscal 1999 and 2000, recoverable costs from developed property increased by $66 million in fiscal 1999. The increase also includes the cost of new Dinuba, CA, distribution facility that opened in April 1999.

Capital spending for fiscal 2000 is expected to exceed $300 million, exclusive of amounts to be recovered through subsequent sales and leasebacks, to support the Company's plans to open new stores and remodel or relocate selected stores to its new Concept IV format. The new stores scheduled to open in fiscal 2000 include entry into the markets of San Francisco, San Diego and Sacramento, CA; northern Florida; upstate New York; and Richmond and Norfolk, VA. The Company also plans to remodel or relocate approximately 20 stores to larger facilities. Included in its expansion plans, the Company will test four 30,000-square-foot small market format stores in markets with populations between 100,000 and 200,000. These stores are expected to offer a narrowed assortment of the same product categories as the larger stores. The Company will also be investing in information systems to support the development of its e-commerce business and improve its services division.

In the first quarter of fiscal 1999, essentially all of the Company's preferred securities were converted into common stock, resulting in the issuance of approximately 20.4 million common shares. This conversion increased shareholders' equity by over $220 million, net of the remaining $6.8 million in deferred issuance costs. The remaining preferred securities were redeemed in June 1998 for cash of $671,000. In October 1998, the Company prepaid its $150 million 8-5/8% Senior Subordinated Notes, due in October 2000.

In October 1998, the Company's Board of Directors authorized the purchase of up to $100 million of the Company's common stock. Through February 27, 1999, 125,000 shares at a cost of $2.5 million have been purchased.

In May 1998, the Company entered into a new, unsecured $220 million revolving credit facility, replacing the $365 million facility that was scheduled to mature in June 1998. The Company was able to reduce the size of the facility due to improved operating performance and better inventory management. The new facility is scheduled to mature in June 2000, can be extended for one year if certain conditions are met and may be reduced at the Company's option.

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

YEAR 2000 READINESS

The Company understands the material nature of the business issues surrounding computer processing of dates into and beyond the year 2000 (Y2K). Any computer program or computer chip-controlled device could harbor a Y2K processing issue. Typically, Y2K issues arise from systems or software processing only two digits representing a year. The absence of century digits (e.g., "19" for years 1900-1999, or "20" for years beginning in 2000) usually leads to false results from computer-controlled systems. This is the most pervasive issue.

The Company recognized that Y2K issues existed within its computer programs and computer chip controlled devices and has taken corrective action. The Company's actions to address Y2K issues began with the selection of a nationally recognized, experienced computer hardware and consulting firm to assist in both identifying and resolving these issues. The Company developed specific and detailed plans to correct Y2K issues and management believes, to date, the Company has made significant progress.

The majority of the Company's business processing applications operate on mainframe computer systems. Over five million lines of computer programming were scanned and analyzed to identify Y2K issues in these systems. In the past year, corrective programming logic to replace existing computer code for these Y2K issues has been installed and this effort is over 95% complete. Corrected logic was tested as changes were made. This portion of the Company's plan was completed at a total cost of approximately $9 million in outside professional fees, of which the majority were incurred in fiscal 1999. In addition, the Company has dedicated a staff of its internal resources to address Y2K issues. Although the change to the calendar year 2000 is responsible for the majority of the Y2K issues, the Company's systems are fully functional in its current fiscal year 2000.

The Company is also replacing or installing certain computer hardware and software which will address new business applications, as well as Y2K issues. The timing of some of these projects has been accelerated to meet Y2K compliance. The Company expects to fund both the capital and expensed elements of resolving Y2K issues through funds generated from operations.

In addition to the mainframe system Y2K issues, the Company has substantially completed efforts to identify non-mainframe computer system Y2K issues and other potential Y2K issues. These issues include the Company's communication systems and operating systems at and between the Company's locations and support facilities. The Company has corresponded with its business partners, including merchandise suppliers and service providers to assess their ability to support the Company's operations with respect to their individual Y2K issues. These issues include data exchange with the Company, as well as the partners' production and shipping processes. The issues that were identified as part of this process have been prioritized in order of significance to the Company's operations and corrective action is being taken as appropriate. This portion of the Company's plan is expected to be completed at a total cost of approximately $8 million, of which the majority will be incurred in fiscal 2000.

The Company generally believes that the vendors that supply products to the Company for resale are responsible for the Y2K functionality of those products. However, should product failures occur, the Company may be required to address the administrative aspects of those failures such as handling product returns or repairs.

While the Company believes that it is pursuing the appropriate courses of action to ensure Y2K readiness, there can be no assurance that the objective will be achieved either internally or as it relates to business partners. Also, the Company can provide no assurance regarding potential impact on consumer spending that may result from concerns regarding the Y2K functionality of products. For the Y2K issues which, if not timely resolved, could have a significant impact on the Company's operations, the Company is continuing to develop contingency plans to minimize the impact of failure to achieve Y2K compliance. The Company has also devoted significant attention to planning for what could be the result of the most adverse consequence of Y2K issues. Management believes that adequate contingency plans are being developed to minimize the financial impact to the Company.

QUARTERLY RESULTS AND SEASONALITY

Similar to most retailers, the Company's business is seasonal. Revenues and earnings are lower during the first half of each fiscal year and are greater during the second half, 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 set forth the Company's unaudited quarterly operating results and high and low common stock prices for each quarter of fiscal 1999 and 1998.

($ in thousands, except per share amounts; per share amounts have been adjusted for a two-for-one stock split in March 1999)

Quarter	1st	2nd	3rd	4th
Fiscal 1999				
Revenues	$ 1,943,664	$ 2,182,124	$ 2,493,843	$ 3,458,275
Gross profit	354,219	410,349	445,591	617,624
Operating income	28,065	72,795	91,606	172,036
Net earnings	15,725	44,135	54,389	110,188
Diluted earnings per share	.08	.21	.26	.52
Fiscal 1998				
Revenues	$ 1,606,551	$ 1,793,204	$ 2,106,361	$ 2,852,096
Gross profit	247,883	288,908	337,890	457,457
Operating income	5,216	19,926	52,919	108,797
Net earnings (loss)	(2,639)	6,648	26,418	64,026
Diluted earnings (loss) per share	(.02)	.04	.14	.32

COMMON STOCK PRICES

Quarter	1st	2nd	3rd	4th
Fiscal 1999				
High	$ 19	$ 27 13/32	$ 29 27/32	$ 49
Low	14 3/4	14 7/8	16	23 7/16
Fiscal 1998				
High	$ 3 19/32	$ 4 3/8	$ 7 9/16	$ 15 19/64
Low	2 5/32	2 13/16	4 7/32	7 9/32

Best Buy's common stock is traded on the New York Stock Exchange, symbol BBY. As of March 31, 1999, there were 1,656 holders of record of Best Buy common stock. The Company has not historically and does not intend 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 the Annual Report are forward-looking statements that involve risks and uncertainties. Such risks and uncertainties include, among other things, the Company's expectations regarding the economy, future sales volumes, profit margins, its Year 2000 readiness, the impact of labor markets and new product introductions on the Company's overall profitability. Readers are encouraged to review 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 herein.

CONSOLIDATED BALANCE SHEETS

$ in thousands, except per share amounts

Assets	Feb. 27 1999	Feb. 28 1998
Current Assets		
Cash and cash equivalents	$ 785,777	$ 520,127
Receivables	132,401	95,702
Recoverable costs from developed properties	73,956	8,215
Merchandise inventories	1,046,366	1,060,788
Other current assets	24,591	25,445
Total current assets	2,063,091	1,710,277
Property and Equipment		
Land and buildings	23,158	19,977
Leasehold improvements	174,495	160,202
Furniture, fixtures and equipment	505,232	372,314
Property under capital leases	29,079	29,079
	731,964	581,572
Less accumulated depreciation and amortization	308,324	248,648
Net property and equipment	423,640	332,924
Other Assets	25,762	13,145
Total Assets	$ 2,512,493	$ 2,056,346

Liabilities and Shareholders' Equity	Feb. 27 1999	Feb. 28 1998
Current Liabilities		
Accounts payable	$ 1,011,746	$ 762,652
Accrued compensation and related expenses	86,667	48,772
Accrued liabilities	211,555	182,719
Income taxes payable	46,851	24,608
Current portion of long-term debt	30,088	14,925
Total current liabilities	1,386,907	1,033,676
Long-Term Liabilities	30,943	24,673
Long-Term Debt	30,509	210,397
Convertible Preferred Securities of Subsidiary	—	229,854
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 203,621,000		
and 178,504,000 shares, respectively	10,181	4,463
Additional paid-in capital	542,377	266,144
Retained earnings	511,576	287,139
Total shareholders' equity	1,064,134	557,746
Total Liabilities and Shareholders' Equity	$ 2,512,493	$ 2,056,346

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

$ in thousands, except per share amounts

For the fiscal years ended	Feb. 27 1999	Feb. 28 1998	March 1 1997
Revenues	$ 10,077,906	$ 8,358,212	$ 7,770,683
Cost of goods sold	8,250,123	7,026,074	6,711,802
Gross profit	1,827,783	1,332,138	1,058,881
Selling, general and administrative expenses	1,463,281	1,145,280	1,005,675
Operating income	364,502	186,858	53,206
Net interest income (expense)	435	(33,005)	(50,338)
Earnings before income tax expense	364,937	153,853	2,868
Income tax expense	140,500	59,400	1,120
Net earnings	$ 224,437	$ 94,453	$ 1,748
Basic Earnings Per Share	$ 1.13	$ .54	$ .01
Diluted Earnings Per Share	$ 1.07	$ .52	$ .01
Basic Weighted Average Common Shares Outstanding (000's)	199,185	175,416	172,686
Diluted Weighted Average Common Shares Outstanding (000's)	210,006	200,251	174,491

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

$ in thousands

For the fiscal Years Ended	Feb. 27 1999	Feb. 28 1998	March 1 1997
Operating Activities			
Net earnings	$ 224,437	$ 94,453	$ 1,748
Depreciation, amortization and other non-cash charges	78,367	71,584	67,312
	302,804	166,037	69,060
Changes in operating assets and liabilities:			
Receivables	(36,699)	(16,121)	41,857
Merchandise inventories	14,422	71,271	69,083
Other current assets	854	4,657	8,174
Accounts payable	249,094	147,340	(152,491)
Other liabilities	109,713	43,500	(26,053)
Income taxes payable	22,243	33,759	3,579
Total cash provided by operating activities	662,431	450,443	13,209
Investing Activities			
Additions to property and equipment	(165,698)	(72,063)	(87,593)
(Increase) decrease in recoverable costs from developed properties	(65,741)	45,270	72,752
(Increase) decrease in other assets	(18,128)	4,494	(5,593)
Total cash used in investing activities	(249,567)	(22,299)	(20,434)
Financing Activities			
Long-term debt payments	(165,396)	(22,694)	(25,694)
Long-term debt borrowings	—	10,000	33,542
Common stock issued	20,644	14,869	2,740
Repurchase of common stock	(2,462)	—	—
Total cash (used in) provided by financing activities	(147,214)	2,175	10,588
Increase in Cash and Cash Equivalents	265,650	430,319	3,363
Cash and Cash Equivalents at Beginning of Period	520,127	89,808	86,445
Cash and Cash Equivalents at End of Period	$ 785,777	$ 520,127	$ 89,808

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND INDEPENDENT AUDITOR'S REPORT

$ in thousands

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balances at March 2, 1996	$ 4,284	$ 236,392	$ 190,938
Stock options exercised	45	2,695	—
Tax benefit from stock options exercised	—	2,213	—
Net earnings	—	—	1,748
Balances at March 1, 1997	4,329	241,300	192,686
Stock options exercised	134	14,056	—
Tax benefit from stock options exercised	—	10,642	—
Conversion of preferred securities	—	146	—
Net earnings	—	—	94,453
Balances at February 28, 1998	4,463	266,144	287,139
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	—	—	224,437
Balances at February 27, 1999	$ 10,181	$ 542,377	$ 511,576

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 27, 1999, and February 28, 1998, 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 27, 1999. 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 generally accepted auditing standards. 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 27, 1999, and February 28, 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 27, 1999, in conformity with generally accepted accounting principles.

Minneapolis, Minnesota
March 30, 1999

$ in thousands, except per share amounts

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business:

The Company 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.

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, including amortization of property under capital leases, 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.

Pre-Opening Costs:

The Company adopted Statement of Position (SOP) 98-5, "Reporting on the Cost of Start-Up Activities," during the first quarter of fiscal 1999. The SOP requires the costs of start-up activities, including store opening costs, to be expensed in the period 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.

Performance Service Plans:

The Company sells Performance Service Plans on behalf of an unrelated third party. The Company recognizes commission revenue on the sale of the plans at the time of sale. Revenue from the sale of the plans sold prior to November 26, 1995, net of direct selling expenses, is recognized straight-line over the life of the plan. Costs related to servicing these plans are expensed as incurred.

$ in thousands, except per share amounts

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 interest expense thereon, net of related taxes, was added back to net earnings when such conversion resulted in dilution.

Stock Splits:

The Company completed a two-for-one stock split effected in the form of a 100% stock dividend distributed on May 26, 1998. In addition, on February 19, 1999, the Company's Board of Directors authorized another two-for-one stock split effected in the form of a 100% stock dividend distributed on March 18, 1999. All share and per share information reflects these stock splits.

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."

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 sheet and statement 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.

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.

2. WORKING CAPITAL FINANCING

Credit Agreement:

The Company has a credit agreement (the Agreement) that provides a bank revolving credit facility under which the Company can borrow up to $220,000. The Agreement expires on June 30, 2000 and can be extended for one year upon meeting certain requirements. 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 and place limits on owned real estate and capital expenditures. The Agreement also requires that the Company reduce the outstanding principal balance for a period not less than 30 consecutive days to not more than $50,000, net of cash and cash equivalents. There were no borrowings under the facility during fiscal 1999. The weighted average interest rates on borrowings under the Company's prior credit agreements were 8.67% and 6.86% for fiscal 1998 and 1997, respectively.

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 facility in fiscal 1999. The line has provisions that give the financing source a portion of the cash discounts provided by the manufacturers.

$ in thousands, except per share amounts

3. LONG-TERM DEBT

	Feb. 27 1999	Feb. 28 1998
Senior Subordinated Notes	$ —	$ 150,000
Other	60,597	75,322
	60,597	225,322
Current portion of long-term debt	30,088	14,925
	$ 30,509	$ 210,397

Senior Subordinated Notes:
On October 5, 1998, the Company prepaid its $150,000, 8-5/8% 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 are included in interest expense in fiscal 1999.

Other:
At February 27, 1999, long-term debt consists of a subordinated note, capital leases and other loans that bear interest at rates ranging from 5.25% to 9.95%. The subordinated note is unsecured and matures in July 1999. The capital leases and other loans are secured by certain property and equipment with a net book value of $42,900 and $54,100 at February 27, 1999 and February 28, 1998, respectively.

During fiscal 1999, 1998 and 1997, interest paid (net of amounts capitalized) totaled $23,800, $37,700 and $50,900, respectively. The fair value of long-term debt approximates carrying value.

Future Maturities of Long-term Debt:

Fiscal Year	Capital Leases	Other
2000	$ 693	$ 29,395
2001	7,542	8,167
2002	—	4,251
2003	—	1,445
2004	—	895
Thereafter	—	8,251
	8,235	$ 52,404
Less amount representing interest	42	
Minimum lease payments	$ 8,193	

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 is the sole general partner, completed the public offering of 4,600,000 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 48,800,000 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 27, 1999, options to purchase 19,139,000 shares are outstanding under all of these plans.

Pursuant to 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:

	1999	1998	1997
Net Earnings			
As reported	$ 224,437	$ 94,453	$ 1,748
Pro forma	209,412	88,614	(1,196)
Basic Earnings Per Share			
As reported	$ 1.13	$ .54	$ .01
Pro forma	1.05	.51	(.01)
Diluted Earnings Per Share			
As reported	$ 1.07	$ .52	$ .01
Pro forma	1.00	.49	(.01)

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:

	1999	1998	1997
Risk-free interest rate	5.6%	6.8%	6.2%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	50%	60%	40%
Expected life of options	4.9 years	4.2 years	4.3 years

The pro forma effect on net earnings and earnings per share is not representative of the pro forma net earnings in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The weighted average fair value of options granted during fiscal 1999, 1998 and 1997 used in computing pro forma compensation expense was $8.58, $1.74 and $1.26 per share, respectively.

In February 1997, the Company canceled 6,556,000 options, representing approximately half of the outstanding options granted to employees since April 1993, with exercise prices ranging from $2.80 to $9.55 and granted the same number of new options with an exercise price of $2.16. Options issued to the Company's CEO and president were not included in the repricing.

$ in thousands, except per share amounts

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

	Shares	Weighted Average Exercise Price Per Share
Outstanding March 2, 1996	17,080,000	$ 4.74
Granted	10,660,000	3.05
Exercised	(1,784,000)	1.54
Canceled	(9,056,000)	5.61
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

Exercisable options at the end of fiscal 1999, 1998 and 1997 were 5,038,000, 4,716,000 and 5,860,000, respectively. The following table summarizes information concerning options outstanding and exercisable as of February 27, 1999:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0 to $5	9,214,000	5.68	$ 2.91	3,746,000	$ 2.83
$5 to $10	1,559,000	1.76	5.90	1,132,000	5.91
$10 to $15	58,000	8.99	14.36	10,000	14.10
$15 to $20	8,162,000	9.16	17.21	150,000	17.39
$20 to $25	95,000	9.58	23.66	—	—
$25 to $30	21,000	9.69	25.31	—	—
$30 to $35	30,000	9.86	31.75	—	—
$0 to $35	19,139,000	6.88	$ 9.46	5,038,000	$ 3.98

Earnings Per Share:

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share for fiscal 1999, 1998 and 1997:

	1999	1998	1997
Numerator:			
Net earnings	$ 224,437	$ 94,453	$ 1,748
Interest on preferred securities, net of tax	771	9,179	—
Net earnings assuming dilution	$ 225,208	$ 103,632	$ 1,748
Denominator (000's):			
Weighted average common shares outstanding	199,185	175,416	172,686
Effect of dilutive securities:			
Employee stock options	8,726	4,404	1,805
Preferred securities	2,095	20,431	—
Weighted average common shares outstanding assuming dilution	210,006	200,251	174,491
Basic earnings per share	$ 1.13	$ .54	$ .01
Diluted earnings per share	$ 1.07	$ .52	$ .01

$ in thousands, except per share amounts

Stock Repurchase:
On October 13, 1998, the Company announced a stock repurchase program, which authorized the purchase of up to $100 million of the Company's common stock over the next year. Under the program, the Company may purchase shares of common stock from time to time through open market purchases. As of February 27, 1999, 125,000 shares were purchased and retired at a cost of $2,500.

6. OPERATING LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Company conducts essentially all of its retail and 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. The Company also leases various equipment under operating leases. In addition, the Company had leased 17 stores and a distribution center, along with the related fixtures and equipment under a master lease agreement through February 1998. The leases on these properties were terminated in fiscal 1998 and the properties were re-leased under long-term leases. The Company purchased the fixtures and equipment from the lessor. 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 composition of total rental expenses for all operating leases during the last three fiscal years, including leases of buildings and equipment, was as follows:

	1999	1998	1997
Minimum rentals	$ 186,100	$ 161,500	$ 139,200
Percentage rentals	500	400	500
	$ 186,600	$ 161,900	$ 139,700

As of February 27, 1999, three stores are leased from the Company's CEO and principal shareholder, or partnerships in which he is a partner. Rent under these leases during the last three fiscal years and one additional store, leased from his spouse, for which the lease expired in January 1998, was as follows:

	1999	1998	1997
Minimum rentals	$ 800	$ 900	$ 1,000
Percentage rentals	400	400	400
	$ 1,200	$ 1,300	$ 1,400

Future minimum lease obligations by year (not including percentage rentals) for all operating leases at February 27, 1999, are as follows:

Fiscal Year	
2000	$ 184,700
2001	182,900
2002	180,000
2003	171,700
2004	167,200
Thereafter	1,584,100

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 $3,100, $2,100 and $2,000 in fiscal 1999, 1998 and 1997, respectively.

In fiscal 1999, the Company established a deferred compensation plan for certain management employees. The related liability for compensation deferred under this plan was $8,400 at February 27, 1999, 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 $14,200 and is included in other assets. Both the asset and the liability are carried at market value.

$ in thousands, except per share amounts

8. INCOME TAXES

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

	1999	1998	1997
Federal income tax at the statutory rate	$ 127,728	$ 53,849	$ 1,004
State income taxes, net of federal benefit	14,670	5,763	116
Tax exempt interest	(3,232)	(1,038)	—
Other	1,334	826	—
Income tax expense	$ 140,500	$ 59,400	$ 1,120
Effective tax rate	38.5%	38.6%	39.0%

Income tax expense consists of the following:

	1999	1998	1997
Current: Federal	$ 120,892	$ 50,950	$ (5,100)
State	15,252	5,487	(581)
	136,144	56,437	(5,681)
Deferred: Federal	3,868	2,687	6,103
State	488	276	698
	4,356	2,963	6,801
Income tax expense	$ 140,500	$ 59,400	$ 1,120

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. 27 1999	Feb. 28 1998
Accrued expenses	$ 15,690	$ 13,294
Deferred income	4,154	9,125
Compensation and benefits	8,052	2,554
Other	4,608	2,222
Total deferred tax assets	32,504	27,195
Property and equipment	10,973	17,067
Inventory	2,215	—
Other	3,603	573
Total deferred tax liabilities	16,791	17,640
Net deferred tax assets	$ 15,713	$ 9,555

The Internal Revenue Service has changed its original position regarding the deductibility of interest related to the Company's preferred securities referred to in Note 4 and has determined that the interest is deductible for federal income tax purposes.

Income taxes paid (received) were $84,000, $12,700 and ($8,600) in fiscal 1999, 1998 and 1997, 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.

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 website for product information, Company background and current news: http://www.bestbuy.com.

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

Or write to: Best Buy Co., Inc.
Investor Relations Dept.
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: (612) 947-2621, or by writing to the above address.

Annual Shareholders' Meeting

Thursday, June 24, 1999, 3 p.m.
The Minneapolis Institute of Arts
2400 Third Avenue South
Minneapolis, MN

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)
PO Box 2500
Jersey City, NJ 07303-2500
Email - fctc@em.fcnbd.com
Phone - (800) 446-2617
Hearing impaired: (201) 222-4955
Web site: http://www.fctc.com

General Counsel

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

Independent Certified Public Accountants

Ernst & Young LLP
Minneapolis, Minnesota

Supporting the Communities that we serve

Best Buy is proud to support our communities with local giving programs. We provide corporate sponsorship for initiatives such as America's Promise and Junior Achievement.
Our Best Buy Children's Foundation works to enhance the lives of school-age children in the communities we serve. Learn more about our giving program at www.bestbuy.com.

Leadership

Our stores and our staff have evolved to meet the needs of our customers. We have made significant changes in our infrastructure to support the explosive growth of the past decade. Our consulting partners have helped us take full advantage of change. We are dedicated to becoming a "Learning Organization" – providing an environment for discovery and ongoing growth opportunities for our employees.

BOARD OF DIRECTORS

Pictured from Left to Right (Front Row): Yvonne R. Jackson, Dr. James C. Wetherbe, Richard M. Schulze, Elliot S. Kaplan. **(Back Row):** Frank D. Trestman, Bradbury H. Anderson, David H. Starr, Hatim A. Tyabji, Culver Davis, Jr.

Richard M. Schulze
Founder, Chairman
and Chief Executive Officer

Bradbury H. Anderson
President and
Chief Operating Officer

Culver Davis, Jr.
Retired Chairman
Cub Foods Subsidiary of
SuperValu, Inc.

Yvonne R. Jackson
Senior Vice President -
Human Resources Worldwide
Burger King Corporation

Elliot S. Kaplan
Partner
Robins, Kaplan, Miller &
Ciresi L.L.P.

David H. Starr
Chief Information Officer
Knight-Ridder Incorporated

Frank D. Trestman
President
Trestman Enterprises

Hatim A. Tyabji
Chairman and CEO
Saraïde.com

Dr. James C. Wetherbe
Director
MIS Research Center and
Professor - MIS
University of Minnesota

EXECUTIVE OFFICERS

Richard M. Schulze
Founder, Chairman
and Chief Executive Officer

Bradbury H. Anderson
President and
Chief Operating Officer

Allen U. Lenzmeier
Executive Vice President
and Chief Financial Officer

Wade R. Fenn
Executive Vice President -
Marketing

Gary L. Arnold
Sr. Vice President -
Merchandising

Julie M. Engel
Sr. Vice President -
Advertising

Robert C. Fox
Sr. Vice President -
Finance and Treasurer

Kevin P. Freeland
Sr. Vice President -
Inventory Management

Marc D. Gordon
Sr. Vice President -
Information Systems and
Chief Information Officer

Wayne R. Inouye
Sr. Vice President -
Merchandising

Michael P. Keskey
Sr. Vice President -
Sales

Richard L. Lewis
Sr. Vice President -
People and Learning

Michael A. Linton
Sr. Vice President -
Strategic Marketing

Michael London
Sr. Vice President -
Merchandising

George Z. Lopuch
Sr. Vice President -
Corporate Strategic Planning

Joseph T. Pelano, Jr.
Sr. Vice President -
Operations

Lowell W. Peters
Sr. Vice President -
Services

Charles A. Scheiderer
Sr. Vice President -
Logistics

Philip J. Schoonover
Sr. Vice President -
Merchandising

John C. Walden
President -
E-Commerce Division

Kenneth R. Weller
Sr. Vice President -
Sales

SUPPORT GROUP OFFICERS

Vince A. Accardi
Vice President -
In-home Repair Services

Dale W. Anderson
Vice President -
IS Applications Development

Scott P. Bauhofer
Vice President -
Computers

Clark T. Becker
Vice President -
IS Systems & Programming

Nancy C. Bologna
Vice President -
Organizational Effectiveness

Peter A. Bosse
Vice President -
Digital Communications
Services

James M. Damian
Vice President -
Visual Merchandising

Brian J. Dunn
Vice President -
Regional Sales

Donald G. Eames
Vice President -
Regional Sales

Connie B. Fuhrman
Vice President -
Process Development,
Marketing

Brian E. Golberg
Vice President -
Store Planning and
Construction

Kevin T. Gordon
Vice President -
Concept Development

Marc I. Gordon
Vice President -
Controller

Jill M. Hamburger
Vice President -
Interactive Entertainment

Susan S. Hoff
Vice President -
Corporate Communications
and Public Relations

Joseph M. Joyce
Vice President -
General Counsel

Michael W. Marolt
Vice President -
Loss Prevention

Patrick R. Matré
Vice President -
Real Estate

Jeffrey C. Maynard
Vice President -
Strategic Marketing

Robert E. McGrath
Vice President -
Sales Development

David J. Morrish
Vice President -
Merchandising

Joseph S. Pagano
Vice President -
Music and Movies

Christopher R. Steele
Vice President -
Accounting Operations

David S. Telschow
Vice President -
Product Services

Embracing Change

Change Creates Opportunity
Two stock splits in ten months
A new revenue milestone – $10 billion
Record earnings of $224 million

Fiscal 1999 was the most successful in Best Buy's 33 years.
We continue to grow and change – looking for opportunities
to embrace our evolving industry.
We strive to meet our customers' needs …
at the intersection of Technology and Life.

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