A MESSAGE FROM
HUBERT JOLY, CHAIRMAN & CEO

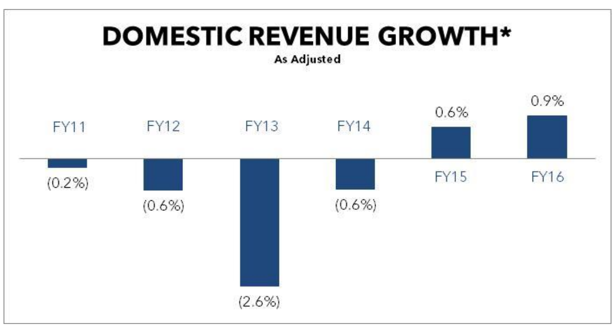
Dear Fellow Shareholders:

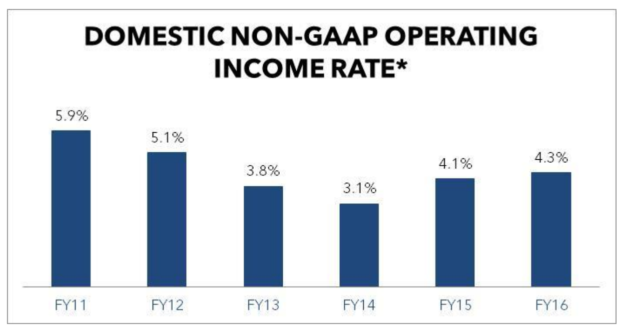
As we enter the fourth year of our transformation, I am pleased to report the following:

1) We continued to make significant progress in FY16 toward our key goals.
2) We returned $1.5 billion of cash to our shareholders this past year and articulated a clear capital return strategy and plan as we began FY17.
3) We have entered the next phase of our transformation, and I am happy to provide some color around our growth strategy and our FY17 priorities.
4) We are benefiting from the strength of our Board of Directors and good governance practices.

1. Fiscal Year 2016 Progress

In this past fiscal year, we made progress against the two problems identified at the outset of this journey: declining comparable sales and declining margins. In fact, FY16 marked the second year in a row that we *increased* our domestic revenue and *expanded* our operating margin.





This progress was made possible through our unrelenting focus on the **Five Pillars** of our Renew Blue transformation.

Let me begin where all successful retailers start, with the **customer experience**. Last year we saw continued improvement in customer satisfaction, having increased our Net Promoter Score by more than 300 basis points.

In the spirit of striving to serve customers wherever and however they prefer, we grew online domestic revenue 13% to more than $4 billion, or 11% of total domestic revenue. This growth was fueled, in part, by a meaningfully improved website and the launch of the enhanced Best Buy app that has consistently earned higher customer reviews than most, if not all, of our competitors.

We have also meaningfully enhanced the customer experience in our stores and around the services we provide to our customers, from consultation to installation, setup, support and repair.

All of this progress has allowed us to gain market share in nearly all of our traditional consumer electronics ("CE") categories, as well as appliances.

None of this would have been possible without the talent and engagement of our **leaders and employees**. I am proud of what they do everyday and thank each individual member of our team for what they have done to bring us here.

Engagement scores have drastically improved since the outset of our transformation. This year, we also saw a decrease in employee turnover in our stores, allowing us to better serve our customers. We have invested in the training and daily coaching of our front-line employees to be able to deliver enhanced levels of proficiency. We have also enhanced our capabilities in several areas that are critical to our future, including digital and mobile.

We have continued to strengthen our collaboration with key **vendor partners**. For instance, we now have 630 Samsung and 380 Sony home theater stores-within-a-store; 225 Samsung Open House appliance experiences; 814 Windows stores; and 249 AT&T and Verizon mobile shops within our big box stores. This collaboration with key vendors is one of the ways we showcase for our customers the latest and greatest technology in a tangible fashion. A great example of this is the work we have done with key vendors to introduce 4K TV technology to a broad consumer base, increasing adoption at a strong rate.

From an **economic standpoint**, in FY16 we were able to deliver $150 million against our $400 million cost reduction and gross profit optimization goal. This was in addition to the $1 billion in costs we removed from our business in the past few years.

We were also able to successfully consolidate our two Canadian brands and embark on a significant transformation in Canada. Customer retention in Canada is better than expected, and it is clear that we made the correct decision in moving to a single brand, Best Buy.

In aggregate, our decision to focus on North America and the improvements we've made in our business have resulted in a significant increase in our non-GAAP return on invested capital ("ROIC") from 9.2% in FY12 to 13.6% in FY16.*

Finally, throughout FY16 we continued to seek to **positively impact the world**. Our recycling efforts have collected more than 1 billion pounds of e-waste, and our pledge to reduce our carbon footprint by 20% was met in FY16. We subsequently increased our target to a 40% reduction by calendar year 2020 from a 2009 baseline. Our Best Buy Foundation continued its work to provide underserved teenagers across the U.S. with access to technology. We increased the number of our Teen Tech Centers and Geek

Squad Academies, all in an effort to expose underprivileged teens to the career opportunities that technology offers.

2. Returning Capital to Shareholders

In FY16, we returned $1.5 billion to our shareholders. This number included $1 billion in share repurchases, originally planned to be completed over three years. We also increased our dividend and gave shareholders a one-time dividend payment associated with a favorable legal settlement.

As we laid out in our Q4 FY16 earnings call, our long-term capital allocation strategy is first to fund operations and investments in growth, including potential acquistions, and then to return excess free cash flow over time to shareholders through dividends and share repurchases. Our intent is to be a premium dividend payer and to regularly repurchase shares every year that, at a minimum, offset dilution from equity-based awards. We intend to do this all while maintaining investment-grade credit metrics.

In line with this strategy, our FY17 return-of-capital plan includes: 1) a 22% increase in the regular quarterly dividend, to $0.28 per share; 2) a two-year, $1 billion share repurchase program and; 3) a special dividend of $0.45 per share.

3. A Look Ahead at Our Growth Strategy and FY17 Priorities

As pleased as we are with our performance, we are even more excited about what lies ahead. We have entered the next phase of our transformation, and our purpose is clear: help customers learn about and enjoy the latest technology as they pursue their passions or take care of what is important to them in their life, whether it is the desire to be entertained, communicate easily, work efficiently, prepare food, or clean, protect, monitor, or automate their home.

With this purpose in mind, we are on a mission to constantly innovate to improve the experience of our customers and determined to find ways to accelerate the growth of our business.

In this context, we are pursuing the following priorities in FY17:

1) Build on our strong industry position and multi-channel capabilities to move the existing business forward
2) Create greater efficiency and reduce waste throughout the business
3) Advance key growth initiatives

In pursuing our **first priority** — continuing to move the existing business forward — we are implementing a number of initiatives across merchandising, marketing, digital, stores, services and supply chain.

For example, in our appliances business, we look to extend our 21- quarter growth streak in this category. To that end, we plan to build 27 more Pacific Kitchen & Home stores-within-a-store, bringing our total to 203 at year-end. We also expect to see growth from the work we have done to improve our delivery and installation services, both of which are key to the increases we have seen in customer satisfaction.

One of the emerging categories in which we see an opportunity to create and foster a wave of innovation and consumer enthusiasm is the "Connected Home." In this category, we are increasing our assortment in several areas, including home security, lighting and video monitoring, and using our leading position in routers and networking equipment, which form the backbone of the Connected Home, as a way of gaining customer interest and trust.

Regarding our online business, we are prioritizing the customer shopping experience on smartphone and tablet devices, two consumer shopping channels where we are seeing material growth. Our Seattle Technology Development Center, which opened last year, has focused on this part of our customer experience. A recent, well-received example of their work is "BlueAssist," an in-app feature allowing customers to simply shake their device to get live help with products and orders through chat, call and e-mail.

Finally, we are continuing to invest in the talent, proficiency and performance of our front-line employees.

Our **second priority** for FY17 is to reduce cost and create efficiencies throughout the business. Reducing costs is essential for us to be able to fund our investments, build resilience to product cycles and, ultimately, increase our profitability over time.

One example of this cost reduction and efficiency work is our project to reduce the number of open-box appliances we take back into our stores. This effort has the potential to improve the customer experience by changing the way we sell so that fewer customers are compelled to return their appliance purchases. It also can create material savings through fewer price markdowns, reduced transportation costs and the better use of labor in our stores and distribution centers.

Broadly said, we aspire to deliver world-class operational performance, defined in terms of quality, service and cost. This focus has to be – and is becoming – a way of life, especially given our margin structure and product cycles.

These savings will allow us to invest in our future. Such investments include additional costs to ensure we have the most expert sales and services associates; a continued effort to make certain our services pricing remains competitive; and initiatives in the key growth areas. We are determined to invest to grow and equally determined to fund our investments by finding and exploiting areas of cost reduction and efficiency.

Our **third priority** is to advance key growth initiatives that will more deeply transform Best Buy, creating differentiation and growth. We believe we operate in an opportunity-rich environment. Specifically, the advent of the "Internet of Things" is creating a new technology wave that makes Best Buy's operating model increasingly relevant. We know from our customer research and day-to-day customer interactions that consumers are generally:

1) Fairly skeptical that the latest products will actually do what is promised;
2) Finding it difficult to pinpoint solutions available to best meet their needs;
3) Frequently unaware of, or frustrated by, how to get the most out of their technology; and
4) Struggling to make their technology work and find effective help when they need it.

These unmet needs continue to create opportunities for us. We are committed to finding ways to help customers in these areas and to make shopping for and using technology a much better experience.

We will explore a number of initiatives in FY17, including developing more consultative selling approaches and providing a richer set of services to our customers. We will also pursue growth opportunities around key, growing product categories.

A critical component of our growth efforts is our services capabilities, including the Geek Squad. While it may not yet be visible in our quarterly financial results, we are making progress in this area. To do so, we had to spend time over the last two years fixing many aspects of our traditional warranty and repair businesses, including our pricing. We are seeing the results of our efforts through substantially higher Net Promoter Scores, an increased number of total customer interactions and improved attach rates.

4. <u>The Composition of our Board and its Commitment to Good Governance</u>

A strong board and strong governance practices are critical enablers of a company's success.

Over the last few years, we have taken steps to align the composition of our Board with our strategy. As is outlined in our Proxy Statement, we have a very robust process in place to ensure this alignment. I am proud of the talent and expertise that exists on our Board and very appreciative of the work of my colleagues on the Board. I am particularly grateful to Lead Independent Director Russ Fradin for his partnership and leadership.

As is appropriate, we have equally robust processes and practices around the formulation of our strategy, risk management, talent development and succession planning, executive compensation, shareholder engagement, and the evaluation of the performance of our Board and management.

***

In closing, let me say this: 2016 is a special year in the history of Best Buy, as it marks our 50th anniversary. From our humble beginnings as a single "Sound of Music" store in St. Paul, Minnesota, we have grown to be a specialty retailer that has a strong legacy of innovation, ranging from non-commissioned sales associates to the scaling of the Geek Squad, the incorporation of premium products and services, to in-store pickup and ship-from-store. Time and time again, Best Buy has created a way forward.

As I approach the four-year anniversary of my appointment as CEO, I remain humbled by the talent and passion of my colleagues throughout the company. When I think about how much we have been able to accomplish, I cannot adequately express how proud I am to be associated with our company's 125,000 employees. I am incredibly grateful for their support and commitment. Together, we are determined to shape a great future for Best Buy, for the benefit of all our stakeholders.

Respectfully,

Hubert Joly, Chairman and CEO
Best Buy Co., Inc.

** For "Revenue - As Reported to Revenue - As Adjusted," "GAAP to non-GAAP" and "Return on Invested Capital" definitions and reconciliations, please refer to the schedules on the last two pages of the company's 2016 Annual Report.*