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Hillenbrand Industries 2000 Annual Report

positive outcomes

Hillenbrand Industries, Inc. (NYSE:HB) is a publicly traded company with three diversified, wholly owned operating companies. The operating companies are organized into Health Care and Funeral Services Groups and are the leaders in the markets they serve. The brands of Hillenbrand Industries are Forethought® (funeral planning), Batesville® (burial caskets and cremation products) and Hill-Rom® (patient care products).

Forethought Financial Services is a leading provider of funeral planning financial products and marketing services in the United States and Canada. Forethought® funeral planning is marketed and sold by funeral homes throughout North America.

Batesville Casket Company is a leading manufacturer of burial caskets, cremation urns and caskets, and related support services. Batesville Casket serves licensed funeral directors operating licensed funeral homes in North America and selected export markets.

Hill-Rom Company is a leading manufacturer of patient care products and a leading provider of specialized therapy rental products and related services. Hill-Rom® products are designed to improve patient outcomes and reduce total delivery costs. Hill-Rom serves acute, ambulatory and long-term health care facilities and home care patients worldwide.

Contents

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A HILLENBRAND INDUSTRY

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hope becomes **life**
trauma becomes **healing**
uncertainty becomes **security**
a life becomes **a legacy**

Positive Outcomes

Why?

At Hillenbrand Industries, we help people prepare for, experience, cope with, and recover from life's most traumatic, trying and meaningful experiences – matters of a healthy life and a meaningful funeral. For us, it's not just about business, it's personal.

People turn to our products, services and companies for positive outcomes. We help deliver a mother's newborn infant; speed a boy's recovery from a biking injury; provide a grandfather the peace of mind of a planned funeral; make a military veteran's funeral more meaningful to his family with personalized products; and deliver value to our shareholders.

Today, we are the leaders in the markets we serve. We care enough to provide the highest quality in patient care and funeral services. Tomorrow, we will meet a new generation's changing health care and funeral services needs.

Hillenbrand Industries is 10,800 associates dedicated to creating positive outcomes for individuals, families, customers, shareholders, and each other.

hope becomes life

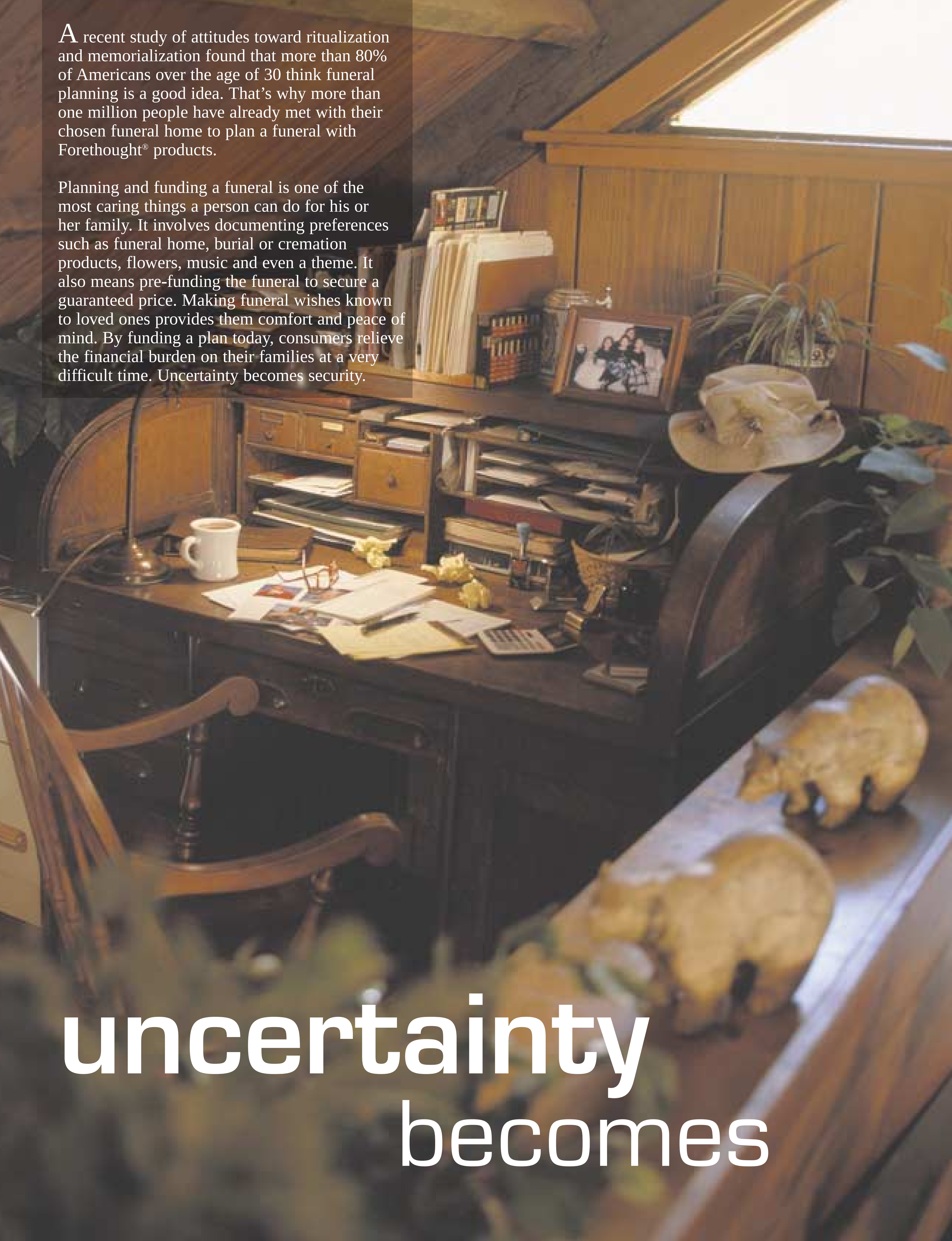
A baby is born about every eight seconds in the United States. That's nearly four million a year. Many of these babies begin life on one of Hill-Rom's Affinity® series maternity beds, the number one maternity bed in the United States and growing rapidly internationally.

Our newest model, the Affinity® Three birthing bed, features innovations that promote safety and efficiency for caregivers and patients. With battery back-up, OneStep™ foot supports, OneStep™ siderails, EasyGlide™ calf supports, and easy-to-reach Point-of-Care® siderail controls, the Affinity® bed line will continue to be an important part of the delivery process when parents' hopes become life.

When accident or illness strikes, patients want to heal quickly and comfortably. Busy caregivers need efficient equipment that helps them safely provide the best care possible. Hospitals want high-quality equipment that assists with productivity and minimizes caregiver injuries.

Hill-Rom's Advanta™ bed meets all these needs. Designed to enhance patient safety, the Advanta™ bed's Patient Position Monitor automatically sounds an alarm to alert caregivers of any position change or attempted egress, and its variable height positioning allows patients to safely get in and out of bed. Combined with a ZoneAire® sleep surface from Hill-Rom, the Advanta™ bed offers pressure relief for at-risk patients. Its Point-of-Care® siderail controls are conveniently located for caregiver efficiency and an in-bed scale weighs patients with ease. Hill-Rom's complete line of products delivers positive outcomes by turning trauma into healing.

trauma becomes healing



A recent study of attitudes toward ritualization and memorialization found that more than 80% of Americans over the age of 30 think funeral planning is a good idea. That's why more than one million people have already met with their chosen funeral home to plan a funeral with Forethought® products.

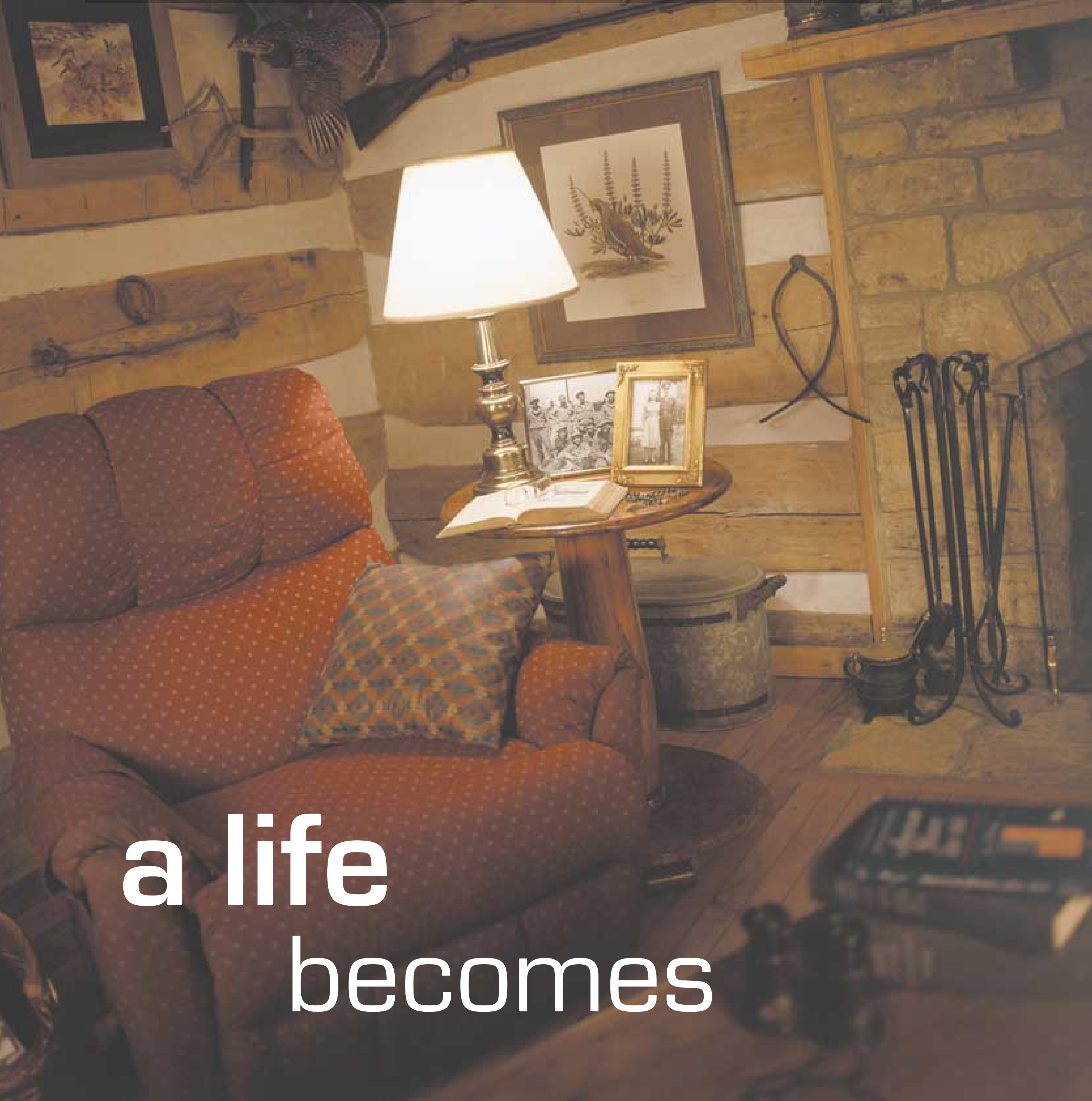
Planning and funding a funeral is one of the most caring things a person can do for his or her family. It involves documenting preferences such as funeral home, burial or cremation products, flowers, music and even a theme. It also means pre-funding the funeral to secure a guaranteed price. Making funeral wishes known to loved ones provides them comfort and peace of mind. By funding a plan today, consumers relieve the financial burden on their families at a very difficult time. Uncertainty becomes security.

uncertainty becomes

security

A 2000 Batesville Casket Company online consumer survey found 88% of consumers felt that a military funeral gives the veteran much-deserved recognition and provides an opportunity for reflection and pride. Military funerals, like all funerals, are an important reflection of the way Americans feel about their country and their loved ones.

Batesville Casket Company is dedicated to providing products that can personalize every funeral. It has the largest, most diversified steel and wood casket product lines available. Batesville's personalization innovations include MemoryFrame™ panels, LifeSymbols™ corner designs, personalized embroidered cap panels, custom engraving, an exclusive Memorial Record™ system, MemorySafe® drawers, and more. From Batesville's Options cremation division, the Floral Reflections™ scattering urn and Lifescape™ series urns offer unique ways to memorialize an individual. Batesville's caskets and cremation products give loved ones and friends an opportunity to recognize a person's individual interests and ensure a life becomes a legacy to remember.



a life becomes

a legacy

Financial Highlights

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions except per share data)	Fiscal Year 2000	1999	1998	Percent Change 2000/99	1999/98
Net revenues:					
Health Care	$1,112	$1,090	$1,151	2%	(5%)
Funeral Services	984	957	850	3%	13%
Total net revenues	2,096	2,047	2,001	2%	2%
Group operating profit:					
Health Care *(a)*	116	55	81	111%	(32%)
Funeral Services *(b)*	182	173	170	5%	2%
Total group operating profit	298	228	251	31%	(9%)
Other items *(c) (d)*	(58)	(33)	42	(76%)	(179%)
Income taxes	86	71	109	21%	(35%)
Net income	$ 154	$ 124	$ 184	24%	(33%)
Net income per common share	$ 2.44	$ 1.87	$ 2.73	30%	(32%)
Dividends per common share	$ .80	$ .78	$ .72	3%	8%
Return on average equity	19.2%	13.4%	20.6%	N/A	N/A
Average shares outstanding (000's)	62,913	66,296	67,578	(5%)	(2%)
Shareholders	18,100	22,900	24,500	(21%)	(7%)
Employees	10,800	10,800	10,400	0%	4%

See Notes to Consolidated Financial Statements

(a) Results in 2000, 1999 and 1998 reflect $5 million of unusual income and $25 million and $70 million of unusual charges, respectively.

(b) Results in 2000 and 1999 reflect $1 million and $12 million of unusual charges, respectively.

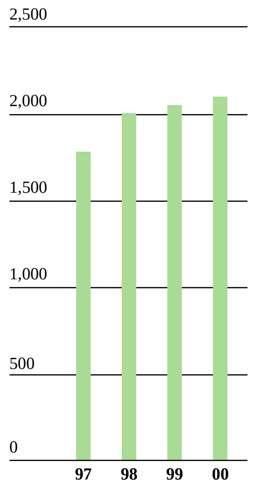
(c) Results in 2000 and 1999 reflect $7 million and $1 million of unusual charges, respectively.

(d) Results in 1998 reflect a gain of $75 million ($47 million after tax) related to the sale of Medeco Security Locks, Inc.

See Note 5 in the Notes to Consolidated Financial Statements on page 46 for more information concerning unusual charges.

Net Revenues

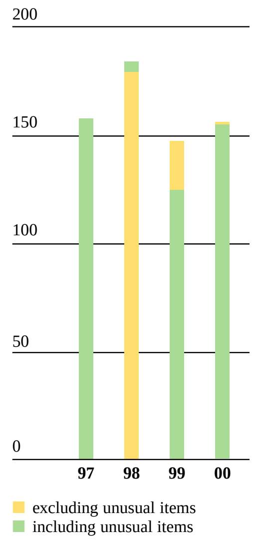
(millions of dollars)



Net revenues have grown at a compounded annual rate of 6% over the past four years.

Net Income

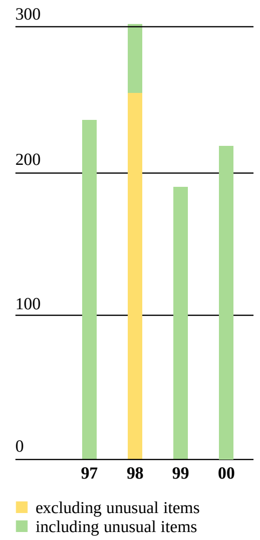
(millions of dollars)



*Excluding unusual items, net income has grown at a compounded annual rate of 4% over the past four years.**

Gross Cash Flow

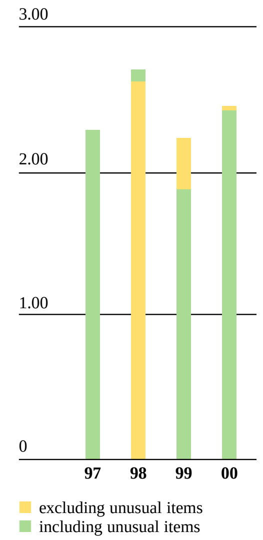
(millions of dollars)



*Excluding unusual items, gross cash flow has remained constant on a compounded annual rate over the past four years.***

Earnings Per Share

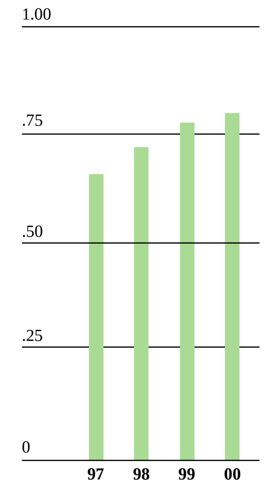
(dollars)



*Excluding unusual items, earnings per share have grown at a compounded annual rate of 7% over the past four years.****

Dividends Per Share

(dollars)



Dividends per share have grown at a compounded annual rate of 7% over the past four years.

** The years 2000, 1999 and 1998 reflect $2 million, $24 million and $42 million of unusual charges, respectively. The year 1998 also reflects income of $47 million relative to the sale of Medeco Security Locks, Inc.*

*** Hillenbrand Industries has generated nearly $950 million in gross cash flow over the past four years. The year 1998 includes a gain totaling $47 million after tax relative to the sale of Medeco Security Locks, Inc.*

**** The years 2000, 1999 and 1998 reflect $.03 per share, $.36 per share and $.62 per share of unusual charges, respectively. The year 1998 also includes income of $.70 per share relative to the sale of Medeco Security Locks, Inc.*

See Note 5 in the Notes to Consolidated Financial Statements on page 46 for more information concerning unusual charges.

To Our Shareholders, Customers and Associates:

Last year, we reported your company was optimistic and well positioned to capitalize on opportunities emerging from the transitioning health care and funeral services markets. In 2000, our management team and associates began making the changes needed to align our businesses to meet shifting customer needs and market conditions. We are pleased to report our initial efforts are producing positive outcomes.

As our realignment continues, our optimism grows. We believe Hillenbrand Industries is just beginning to realize the full potential of our current businesses.

Positive Outcomes for 2000.

- Consolidated net revenues increased 2% to a record $2.096 billion. In early 2001, we marked our 30th Anniversary as a publicly traded company. We have achieved record revenues each year and increased dividends each year since 1972;
- Consolidated gross profit margin was up 6%, illustrating improved operating efficiencies in all our businesses;
- Net income increased 24% to $154 million;
- Earnings per share increased $0.24 or 11%, before unusual items, compared to 1999;
- Hill-Rom's capital product sales were a record $800 million, up 4% from 1999;
- Hill-Rom's European business was profitable for the entire year – marking a significant turnaround for this unit;
- Batesville Casket sales were up 2% to a record $617 million;
- Forethought Financial Services revenue increased 3% to a record $367 million.

> We believe Hillenbrand Industries is just beginning to realize the full potential of our current businesses.

Health Care Group Results. Our Health Care Group, comprised of the Hill-Rom Company, had revenues of $1,112 million, up 2% from 1999. Operating profit increased 111% to $116 million, or 39% to $111 million, excluding unusual charges. The Health Care Group accounted for 53% of our consolidated net revenues.

You will recall, 1999 was a tough year for the health care industry. The Balanced Budget Act of 1997 (BBA) mandated severe reductions in Medicare funding. Those cuts caused our customers to hold back orders while they assessed the impact of the BBA on their operations and profitability.

The good news is in 2000 our acute care customers' profitability improved and they resumed capital equipment purchases after a soft 1999. Their purchases drove our 2000 capital sales revenues to a new record. We saw increased order rates, order backlogs and shipments.

In 2001, we see tremendous opportunities for our health care business to realize its full potential and increase shareholder value. Our challenge is to closely analyze each of our health care product lines to eliminate inefficiencies and ensure each is increasing shareholder value and profitably satisfying customers.

Funeral Services Group Results. Our Funeral Services Group, consisting of Batesville Casket Company and Forethought Financial Services, achieved record revenues of $984 million, 3% over 1999. Operating profit grew 5% to $182 million.

The Funeral Services Group accounted for 47% of Hillenbrand Industries' 2000 consolidated net revenues. Batesville Casket increased unit sales and continued to gain market share. The Options by Batesville cremation division reported revenues and income growth for the seventh consecutive year. Forethought Financial Services increased revenues by growing the number of insurance policies in-force.

In 2000, while national funeral service providers struggled with debt, operational expenses and a lower death rate, our funeral services businesses continued to be strong. The market is responding well to our personalized product offerings at Batesville Casket. Rising interest in cremation is driving growth in our Options cremation division. Also, consumers continue to see value in planning funeral services with Forethought® products. Our challenge in this group is to analyze and operate each business to ensure a direct contribution to shareholder value and continued customer satisfaction.

A New Mission and Initiatives for Increasing Shareholder Value. We are certainly pleased with our improved financial performance. It provides us a solid operational and financial foundation. Today, our management team and associates are busy using that foundation to increase value for all our stakeholders.

While the world celebrated the millennium, we worked hard to realign our organizational structure and increase efficiencies. We spent considerable time reviewing and evolving our corporate mission and initiatives too. Today, we have embraced a new mission focused on realizing the full potential of our current portfolio of businesses, management teams, associates, customer bases, and product lines. Our primary focus is on managing our portfolio of assets to increase shareholder value.

We will continue our efforts to realign and manage our businesses to drive revenue and income growth.

We will continue our efforts to realign and manage our businesses to drive revenue and income growth. Our value creation initiatives, aimed at increasing shareholder value, include:

Resource Reallocation – Hillenbrand Industries has a broad market presence and strong product lines in both our health care and funeral services businesses. However, we see tremendous opportunities to increase shareholder value by ensuring each product line produces profits that exceed its cost of capital. "Weed and seed" is the approach we will take. We will weed or exit those product lines that are not meeting our expectations. For those that do, we will seed them with reallocated resources so they can realize their full profit potential.

New Revenue Initiatives – We will also look to create new sources of revenue by maintaining our historical commitment to product innovation, increasing share in profitable markets and targeting new business development opportunities. We are committed to exploring new possibilities for new customer solutions. Initiatives include Forethought.com and Hill-Rom.com, our new business-to-business Web-based efforts. We realize we need to develop new business processes for a new world economy. Meanwhile, we will continue to look for partnerships or licensing agreements that leverage our strong customer relationships, brand names, sales staffs and distribution systems. These agreements can generate new revenue from exciting new technologies.

Corporate Center/Portfolio Manager – To operate our corporation with a focus on shareholder value, we will change our business structure and culture. Our Corporate Center will become a lean manager of all Hillenbrand Industries' leadership talent and businesses. We will spend our time primarily on becoming a strategic architect of our portfolio of resources – businesses, products and people. We will direct our resources to the opportunities that can most increase shareholder value. Without strong leadership talent, we cannot grow our businesses. So we are fine tuning our leadership development, recruiting and succession planning processes to ensure we have the best possible leaders in key positions. We will continually manage our talent portfolio through development and retention strategies. And when we need people with new skill sets, we will go out and get them. We know we need to have the right

Left: Ray Hillenbrand, Chairman of the Board
Right: Fred Rockwood, President and Chief Executive Officer

Our Mission

Hillenbrand Industries is dedicated to managing its portfolio of businesses and other assets to increase shareholder value.

Three value creation initiatives will guide us as we pursue our mission. We will grow value by reallocating resources from under-performing assets to ones with greater profit potential. We will grow value by seeking opportunities to generate new revenues through new product innovation and new business development. And, we will grow value by focusing our Corporate Center on strategically building our portfolio of assets while maintaining superior leadership talent throughout our companies.

people, with the right competencies in the right positions at the right time. It is all about streamlining for efficiency, productivity and increasing shareholder value.

Combined with our sound financial base, an increasing demand for our products from an aging population, and the dedicated people working at Hillenbrand Industries, we believe these initiatives will increase the value of your investment.

Positive Outcomes. Our annual report theme, *positive outcomes*, reaffirms our commitment to providing value to our customers, associates and shareholders. It also proclaims the greater sense of purpose and pride we share knowing our health care and funeral services products make a significant difference in the lives of millions of people who turn to them for comfort and healing.

Leadership Transitions. Gus Hillenbrand preserved, exemplified, enriched, and modernized our century-old heritage of customer-focused excellence. He also created a culture of continuous improvement that remains an important part of our business processes. Gus retired from the position of chief executive officer in December 2000, after 40 years of leadership. We are grateful to retain his guidance as a member of our board of directors.

In January 2001, Daniel A. Hillenbrand, your long-time Chairman of the Board, also announced his retirement. Affiliated with the company his entire life, Dan's contributions were enormous and many. When he began his career in 1946 after returning from World War II, total company sales were $2.6 million and net income was $128 thousand. In 2000, we recorded total revenues of $2.096 billion and net income of $154 million. However, his impact was more than just financial. Dan's drive, demanding work ethic and far-reaching vision set high standards for all. With those attributes, he expanded your corporation from a regional to a national entity while remarkably upholding our commitment to quality and customer service. Also during his tenure, Hillenbrand Industries became a publicly traded corporation. In recognition of his service and contribution to the company, your board named him Chairman Emeritus. We will value his continued counsel.

On behalf of all associates and shareholders, we thank both Dan and Gus for their unending drive for excellence, legacy of leadership and faithful friendship.

Ray J. Hillenbrand succeeded his Uncle Dan as Chairman of the Board to lead the corporation into a new era of growth. Ray has been a member of the company's board for 31 years since 1970. He was also active in management for 17 years from 1960 to 1977. Among the many positions he held prior to leaving to pursue other business and personal interests were those of Senior Executive Vice President and member of the Office of the President.

A Bright Future. We remain optimistic about the tremendous opportunities to produce positive outcomes in health care and funeral services for a new generation of customers, as well as for every stakeholder. We hope you share our enthusiasm. Thank you for your continued support, trust and investment in Hillenbrand Industries.

Ray J. Hillenbrand
Chairman of the Board

Frederick W. Rockwood
President and Chief Executive Officer

Reflections From Dan Hillenbrand:

After dedicating my entire career to the continued growth and success of Hillenbrand Industries, in January 2001 I announced my decision to retire as your company's Chairman. I would like to sincerely thank our associates, our customers, the communities where we do business, and our shareholders for the support and trust placed in me for many years.

Beginning with my first position in purchasing at Batesville Casket and ending as Chairman of the Board, for more than 50 years my daily focus has been the sound stewardship of Hillenbrand's legacy of quality products, customer satisfaction, employee opportunities, civic responsibility and solid financial management. My career was both a challenging and rewarding responsibility that I was honored to serve.

If a man is the sum of his experiences, I am compelled to acknowledge experiences derived from my father, John A. Hillenbrand, the true founder of what is now Hillenbrand Industries. It was upon his work ethic and business successes that we were able to achieve great things. Our dynamic growth is also the result of the dedication and cooperation of my three departed brothers John W., William A. and George C. Hillenbrand. Their input and experience was always valued and appreciated.

A fourth generation of leadership continued our corporation's growth. That generation includes my nephews, Gus Hillenbrand, our recently retired CEO and valued board member, and Ray J. Hillenbrand, who has been elected to succeed me as Chairman of the Board. Because of Ray's dedication as both a former management member and current director of Hillenbrand Industries, he is well prepared to be the next steward of our businesses and your investment. Joining Ray is our first non-family president and chief executive officer, Fred Rockwood, who has a compelling vision for increasing shareholder value that I am confident will bring our corporation new levels of success. As Chairman Emeritus, I will remain active on the board and available to serve in any beneficial manner.

In closing, I wish to thank my family for their continuous support throughout my career. I am most certainly looking forward to spending more time enjoying and sharing my many interests with them and my loyal friends.

Sincerely,

Dan Hillenbrand
Chairman Emeritus

A Message From Gus Hillenbrand:

It has been my privilege to serve as your CEO and I wish to thank you for your past support.

Aside from my dedication to my family, for more than 40 years Hillenbrand Industries has been my main passion. Working with the many men and women who have touched our businesses, and my life, has been an enormously rewarding experience.

Hillenbrand Industries has great businesses. I have always been proud that the products and services we provide truly comfort people during their times of great need for health care or funeral services. I am equally proud that over the long term we have built innovative businesses that offer the highest standards of quality and service available today.

Our company is well positioned for the future. We are the leaders in the markets we serve. We have a solid financial foundation that is strengthening. We are prepared to serve the aging population and capitalize on new opportunities in the health care and funeral services industries.

Let me note that I am extremely confident in the leadership of Fred Rockwood and his management team. Fred is an exceptional leader, executive and person. He will preserve our heritage, legacy of achievements, customer focus, and commitment to continuous improvement. More importantly, his mission and initiatives will take our businesses to new heights of success never imagined.

Many years ago, I completed my collegiate studies and began to ponder my future. My father, William A. Hillenbrand, founder of Hill-Rom, asked me, "Well Gus, what do you want to be when you grow up *again*?" That wonderfully strange phrase has stuck with me. It reminds me it is important for businesses and people to change. Change allows us to pursue new and exciting experiences in our world. As I look forward to many new and rewarding experiences in my life, I will always hold dear the memories of building Hillenbrand Industries.

Best Regards,

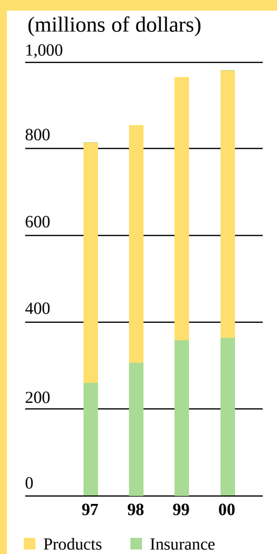
Gus Hillenbrand

Funeral Services Group

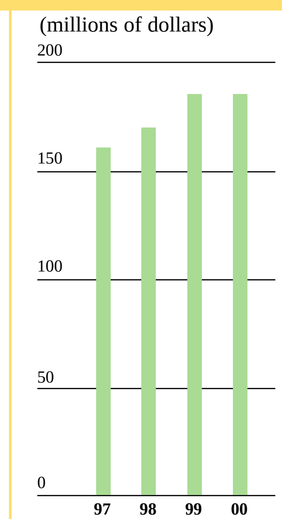
Funeral Services Trends.

- National providers of funeral services, facing a flat death rate, continue to focus on improving operations, reducing debt and restoring profitability.
- Consumers, especially baby boomers, are seeking more value from funeral products and personalizing their funeral experiences.
- The industry is increasing its emphasis on the sale of insurance and trust products for planning funeral services.
- More consumers are selecting cremation.
- The aging population will drive growth in this industry.

Funeral Services Group Revenues



Funeral Services Group Operating Profits*



** Excluding unusual items.*

FORE THOUGHT® A HILLENBRAND INDUSTRY

Batesville® A HILLENBRAND INDUSTRY

Forethought Financial Services

Forethought Financial Services Inc. (Forethought), serves the largest network of funeral homes across the United States, the District of Columbia, nine Canadian provinces, and Puerto Rico with life insurance policies, trusts and marketing support for Forethought® funeral planning.

In 2000, Forethought achieved a record year for new business and record revenues of $367 million, up 3% compared with 1999. Forethought found ways to eliminate inefficiencies while expanding its market penetration. Consumers, including baby boomers, continue to embrace the concept of planning and funding funerals. They see it as another important part of a complete personal financial portfolio.

www.forethought.com

Forethought also used continuous improvement processes to reduce operating expenses by consolidating certain administrative, information technology and sales force resources.

Operational Efficiency. Forethought merged the Forethought National TrustBank into its Forethought Federal Savings Bank. Operating a single federal savings bank will enhance and expedite Forethought's efforts to expand sales to additional U.S. markets. Also, creating one financial institution immediately reduces regulatory reporting, financial reporting, auditing, and other activities and costs associated with them.

Innovation. In 2000, Forethought announced Forethought.com, a new suite of Internet tools to help funeral directors Web-enable their businesses and communicate with the families they serve.

FORE THOUGHT® .com

We're very excited about introducing Forethought.com to funeral directors. Not only does it offer our customers convenient access to information and services, it also provides consumers with dependable online funeral planning in partnership with funeral professionals.

Forethought.com uses the power of the Internet to also provide funeral directors with hassle-free service. It offers them an affordable way to get online assistance and a range of capabilities from online reporting to transactions. It empowers funeral directors with information and technology to run their businesses more efficiently.

After it is launched to the public, consumers will be invited to plan funerals via Forethought.com. They will be able to use the site to become better educated about funeral planning. With user-friendly tools online, consumers will be able to create a personalized and meaningful funeral plan, from selecting music and flowers to choosing a funeral home.

However, families will not be able to fully plan their funerals online until they choose a participating Forethought.com funeral home. Our consumer research indicates that a majority of families want to visit with a funeral professional before finalizing the details of their funeral plan. Forethought.com is designed to provide the funeral director with new channels of communication with families. Our goal is to help funeral directors reach and serve families.

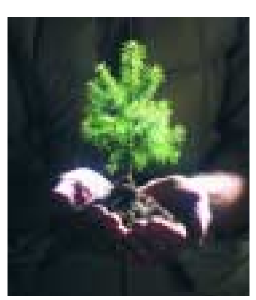
Batesville Casket Company

For more than 100 years, Batesville has been committed to producing positive outcomes for funeral directors and the families they serve by helping to make every funeral meaningful.

In 2000, our funeral home customers responded well to our personalized product offerings at both Batesville Casket and the Options cremation division. Batesville achieved record revenues of $617 million, up 2% over the previous year due to increased sales of high-value, high-margin personalized products. With a death rate that is essentially flat, Batesville continues to demonstrate that innovative products and excellent service drive profitability.


Woodbridge™ pecan casket

By increasing efficiencies, Batesville has been able to in-source processes, such as the construction of all-wood caskets for the Orthodox Jewish faith. The company has been able to in-source the production of more than 16,000 caskets without increasing production floor space. That's efficiency in action!



Batesville Casket's Living Memorial® tree-planting program continued to be favorably received by consumers. The program is a cooperative effort with funeral directors whereby a tree is planted in a national forest for every Batesville® casket or Options® cremation product purchased. The program has planted more than eight million commemorative trees since its inception 24 years ago. Each year, we receive many heart-felt letters from families who find great comfort and meaning in the simple gesture that memorializes their loved ones.

Personalization makes funerals more meaningful. Batesville research shows that 80% of baby boomers surveyed have already given some thought to planning their funerals. When they think about a funeral, our research shows they want to find ways to personalize their experiences.


Golden Sand™ casket

A personalized funeral gives loved ones and friends an opportunity to recognize an individual's value and contributions. That's why Batesville is committed to providing families with the innovative products and services that personalize and give meaning to funeral ceremonies.

The survey results also show why the baby boom generation is changing the way Americans think about funerals. They are adding personal touches to make the ceremony a unique celebration of an individual's life in addition to the mourning of a death. Batesville is working hard to provide funeral directors with the innovative products and services they will need to serve families who want personalized funeral experiences.

A recent Batesville survey of funeral directors indicates that consumers are making new kinds of choices when it comes to funeral planning. On average, funeral directors report that 40% of funerals now involve features that customize or personalize the ceremony. Funeral directors also report that more and more families are adding personalized features to the casket, such as engraving, customized embroidery for the interior, keepsake drawers or other Batesville® features.

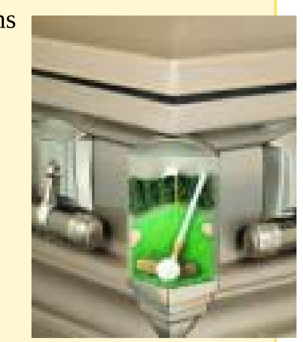
New products for a new generation. Recognizing the need, Batesville and its Options cremation division are leading the personalization trend. For example, Batesville's PowerPack™ 2000 compact display system assists funeral directors in presenting personalization choices to families.


Anthem™ casket

To help commemorate the contributions and sacrifices of the generation that fought for their country during World War II, Batesville has unveiled The Anthem™ stainless steel casket. It includes personalization features such as special military embroidery on the inside of the casket and a unique military design on the handle hardware. To make the funeral ceremony more meaningful, families also receive a high-quality walnut flag case.


Eagle LifeSymbols™ corner design

Batesville Casket Company is making a major donation in support of the National World War II Memorial to be constructed between the Lincoln Memorial and the Washington Monument in Washington, DC. Contributions to the memorial may be made through local funeral homes, or to the National WWII Memorial. For more information about the memorial, call 800-639-4WW2 or visit www.wwiimemorial.com.


Golf LifeSymbols™ corner design

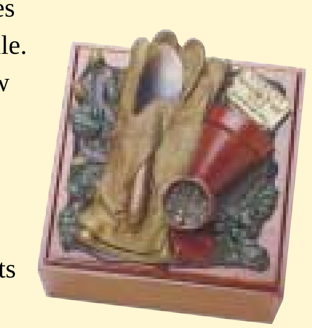
Two new metal models, the Golden Sand™ stainless steel casket and the Golden Midnight™ steel casket, were added to the product line. These two units are the first metal caskets to feature the LifeSymbols™ interchangeable corner designs.

Batesville also expanded its popular LifeSymbols™ casket corner designs with several new offerings. For example, the Golf LifeSymbols™ corner design featuring a putter, green and flagstick is a memorialization product that family members can retain as a keepsake.

The Floral Reflections™ scattering urn from Options by Batesville offers a more graceful way to memorialize through scattering. When placed gently in water, this pressed cotton sculptural urn floats serenely for one to five minutes before descending into the water.


Floral Reflections™ scattering urn

The Garden of Dreams™ cast bronze urn is part of the new Lifescape™ series from Options by Batesville. This is one of several new cast bronze urns that can be personalized with engraving.


Garden of Dreams™ urn

Batesville will continue its leadership in providing personalized products while increasing efficiency to realize the full potential of the business.

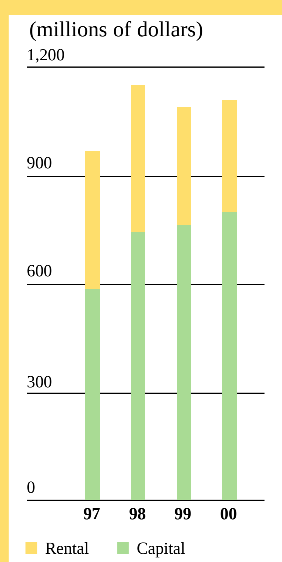
Health Care Group

Health Care Trends.

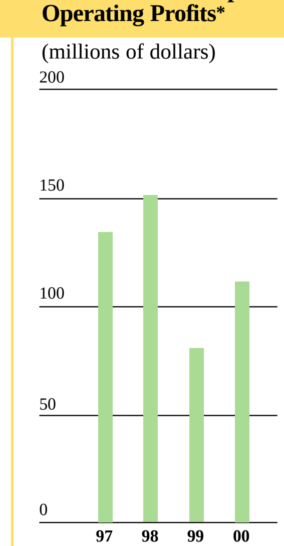
- Purchasing slowdowns created in hospitals by the Balanced Budget Act (BBA) of 1997 have subsided.
- Hospital and acute care facilities continue to seek solutions to cope with reduced Medicare funding.
- Congress is aware of the BBA's detrimental impact on the U.S. health care system and has already passed legislation to provide relief to Medicare providers. Additional Congressional relief is expected as Americans demand better health care services.
- The world's population continues to shift toward older age groups. As a result, patients will be older, sicker and stay longer in acute care and long-term care settings.
- The average age of caregivers is rising, while the task of providing care is becoming more complex. These demographic shifts favor health care businesses.
- Health care spending as a percentage of the gross domestic product is increasing.
- Information technology is impacting health care as Internet-savvy consumers gain access to better information for decision making.
- E-commerce is widening health care providers' and suppliers' choices.

Hill-Rom®
A HILLENBRAND INDUSTRY

Health Care Group Revenues



Health Care Group Operating Profits*



** Excluding unusual items.*

Hill-Rom

Hillenbrand Industries' Health Care Group is comprised of the Hill-Rom Company. Hill-Rom is a recognized leader in the worldwide health care community. It meets the needs of caregivers with products, including state-of-the-art beds, therapy surfaces, room furniture, modular wall systems, medical gas management systems, perinatal/neonatal products, staff/patient communication systems, stretchers, surgical columns, and lighting. Every day, Hill-Rom associates help customers achieve positive clinical and financial outcomes.

Hill-Rom revenues are primarily from capital equipment sales and equipment rentals. In 2000, Hill-Rom capital equipment revenues were a record $800 million, up 4%. A strong line of new and existing products drove sales. Also, capital sales benefited from the improving profitability of our acute care customers. In 2000, they rebounded from the prior year's impact of Medicare funding reductions mandated by the Balanced Budget Act of 1997.

In the rental portion of Hill-Rom's business, units in use increased in the acute care business and revenues increased slightly to a record. However, customers rented fewer high-end beds and more lower-margin support surfaces in acute care to reduce costs. In home care, units in use increased, but lower funding rates from Medicare continue to reduce revenues. Both unit volume and revenues continued to suffer in the long-term care market. Nursing homes and other long-term care facilities struggle to remain solvent. Severe Medicare reimbursement cuts from the conversion to the government's prospective payment system have dramatically decreased their profitability. In January 2001, we announced a realignment of our home and long-term care businesses. To improve profitability while facing declining Medicare funding, we initiated a work force reduction and rationalization of our product line. We are not, however, exiting these markets.

Hill-Rom's European business was profitable for the fifth consecutive quarter. New products, improved manufacturing, a re-energized work force, and efforts to capture efficiencies by consolidating non-value-added resources have been tremendously successful in our European operations.

New products. Hill-Rom's market leadership is driven in part by innovative new products. New products for 2000 included the Advanta™ bed that addresses patient satisfaction, patient safety and engineering needs. This product also enhances clinical outcomes, caregiver efficiency and caregiver safety issues.

Advanta™ bed

The Affinity® Three birthing bed is made with a range of innovative features that promote safety and efficiency for caregivers and patients.

Affinity® Three bed

The Elana™ delivery table, for international markets, is designed for more than one purpose. It is ideal for vaginal deliveries, emergency cesarean sections and other surgeries related to the health of women.

The ImageMakers™ sleeper chair is specifically designed for overnight visitors in the patient room.

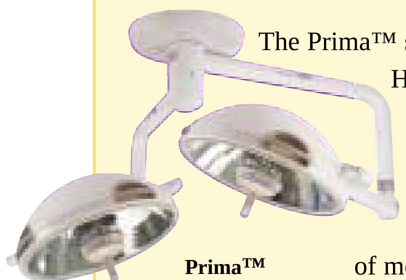
ImageMakers™ sleeper chair

For wound care, the Duo Deteq™ alternating therapy system provides ideal theraputic pressure in a single mattress. The system quickly adjusts to maximum inflation. Unplugged, pressure support is maintained for two hours. However, if CPR is needed, it can be deflated in less than 10 seconds, even during transport.

Duo Deteq™ alternating therapy system

Integris® 2002B headwall system

The Integris® 2002B headwall system allows caregivers to adapt the headwall configuration to patient needs and staff preference. It is one of the many architectural systems produced by Hill-Rom.



Prima™ surgical light

The Prima™ surgical light, from Hill-Rom, features excellent shadow reduction and very low heat transmission in a compact light head designed with full freedom of movement. The light offers total control of light functions from within the sterile field.

Best In Class. For the fourth consecutive year, hospital procurement and group purchasing organization executives selected Hill-Rom *Best In Class* for providing excellent contract support, service and quality-improvement programs. This award also recognizes everyone behind the scenes who works extremely hard to support our sales and service team.

Full Potential. Looking ahead, our acute care customers' improving economic environment, combined with our commitment to realize the full potential of our health care businesses will provide many opportunities to increase shareholder value.

Operational Highlights. Hill-Rom unveiled a new e-business initiative aimed at making it easier for customers to do business with the company, 24 hours a day, seven days a week. Based on extensive research and customer collaboration, Hill-Rom created a new customer-centric Internet site, www.hill-rom.com. The Web site improves the efficiency of health-care providers' business operations by enabling them to receive information and services from Hill-Rom's Web-based platform. Since its October 2000 launch, customers have ordered many different items online.

www.hill-rom.com

The new Hill-Rom site simplifies access to information using minimal mouse "clicks" so customers can make faster, better-informed decisions, and obtain support for products previously purchased from Hill-Rom. Our Web-based business platform now provides valuable clinical information and in-depth presentation of Hill-Rom® solutions with online transactional capabilities.

Also announced in 2000, Hill-Rom became a member of the elite Global Healthcare Exchange, LLC (www.ghx.com), a health care business-to-business consortium formed to streamline the hospital-supply business and promote a global, customer-driven online marketplace for goods and services.

These two Web initiatives are part of Hill-Rom's mission to respond to the ever-changing marketplace, where health care customers expect immediate information and ready-access to products and services that help improve the quality of care for their patients. Hill-Rom will continue to apply Internet technologies to all business processes, especially in customer service and business growth areas.

2000 Financial Report

Hillenbrand Industries, Inc. and Subsidiaries

Financial Contents

Eleven Year Summary

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions except per share data)

	Ten Year Compounded Annual Growth Rate	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
RESULTS OF OPERATIONS												
Net revenues	8%	$2,096	2,047	2,001	1,776	1,684	1,625	1,577	1,448	1,303	1,084	982
Operating expenses	8%	$1,849	1,798	1,707	1,512	1,448	1,420	1,336	1,202	1,109	928	852
Unusual charges *(a)*		$ 3	38	66	–	–	26	85	14	–	–	–
Operating profit	6%	$ 244	211	228	264	236	179	156	232	194	156	130
Other income (expense), net *(d)*		$ (4)	(16)	65	(5)	(3)	(9)	(11)	(11)	(16)	(9)	(10)
Income from continuing operations before income taxes	7%	$ 240	195	293	259	233	170	145	221	178	147	120
% of net revenues		11.5	9.5	14.6	14.6	13.8	10.5	9.2	15.3	13.7	13.6	12.2
Income taxes	6%	$ 86	71	109	102	93	80	55	89	67	57	48
% effective rate		36.1	36.7	37.0	39.4	39.9	47.1	37.9	40.3	37.6	38.8	40.0
Income from continuing operations	8%	$ 154	124	184	157	140	90	90	132	111	90	72
% of net revenues		7.3	6.1	9.2	8.8	8.3	5.5	5.7	9.1	8.5	8.3	7.3
Other items *(b)*		$ –	–	–	–	–	–	–	14	5	(1)	4
Net income	7%	$ 154	124	184	157	140	90	90	146	116	89	76
% average shareholders' equity		19.2	13.4	20.6	19.6	19.3	12.7	13.4	25.2	23.1	19.7	18.2
PER SHARE DATA												
Income from continuing operations	10%	$ 2.44	1.87	2.73	2.28	2.02	1.27	1.26	1.86	1.55	1.23	0.97
Net income	9%	$ 2.44	1.87	2.73	2.28	2.02	1.27	1.26	2.04	1.62	1.22	1.02
Cash dividends	11%	$ 0.80	0.78	0.72	0.66	0.62	0.60	0.57	0.45	0.35	0.29	0.28
Earnings retained and reinvested	8%	$ 1.64	1.09	2.01	1.62	1.40	0.67	0.69	1.59	1.27	0.93	0.74
Book value	8%	$13.21	12.64	14.25	12.94	11.44	10.54	9.78	8.98	7.65	6.76	5.96
Average shares outstanding (000's)	(2%)	62,913	66,296	67,578	68,796	69,474	70,758	71,278	71,407	71,915	72,885	73,971
FINANCIAL POSITION												
Current assets	6%	$ 724	782	858	821	694	640	566	595	556	397	409
Current liabilities	4%	$ 282	371	375	359	320	301	259	311	277	240	193
Working capital	7%	$ 442	411	483	462	374	339	307	284	279	157	216
Current ratio		2.6	2.1	2.3	2.3	2.2	2.1	2.2	1.9	2.0	1.7	2.1
Equipment leased to others and property, net	(1%)	$ 272	267	302	329	346	367	359	327	307	297	314
Insurance assets *(e)*	23%	$3,314	3,091	2,833	2,501	2,157	1,851	1,557	1,212	912	655	434
Total assets	14%	$4,597	4,433	4,280	3,828	3,396	3,070	2,714	2,291	1,958	1,545	1,277
Shareholders' equity	7%	$ 831	838	952	886	787	746	693	640	548	491	436
OTHER DATA												
Capital expenditures	3%	$ 106	79	88	85	92	103	100	113	98	59	76
Depreciation, amort. & write-down of intangibles	(1%)	$ 89	98	149	102	99	127	97	113	118	97	96
Gross cash flow *(c)*	3%	$ 219	190	301	235	223	207	179	231	227	183	171
Employees	1%	10,800	10,800	10,400	9,800	9,800	9,800	10,000	9,800	10,700	10,500	9,500
Shareholders	6%	18,100	22,900	24,500	24,000	24,000	30,000	29,000	27,000	21,500	11,000	9,800
Stock price range — high and low		51½–28¾	58⅛–26⅛	64 11/16–44 9/16	48⅝–33⅞	40¼–31⅞	33⅛–27	43⅝–26⅝	48⅝–36½	43⅝–29¼	30⅜–17⅞	24–15⅛
Price/earnings ratio — high and low		26–13	22–10	28–19	25–18	29–19	30–17	24–13	32–21	34–25	27–17	23–15

(a) Retirement of Company's former CEO, gain from dispositions of facilities idled as a part of prior unusual charges and other items in 2000; work force reduction activities, facility closure costs, certain asset impairment charges and other items in 1999; write-off of goodwill, other asset impairment charges and other closing costs in 1998 and 1995; settlement of a patent infringement suit in 1994; and write-off of goodwill in 1993.

(b) Income (loss) from discontinued operations in 1990-1993; gain on the sale of discontinued operation in 1993; and the cumulative effect of a change in accounting principle in 1992.

(c) Excluding insurance operations, the sum of: net income from continuing operations, income (loss) from discontinued operations, depreciation, amortization and write-down of intangibles.

(d) Reflects a gain of $75 million in 1998 on the sale of Medeco Security Locks, Inc.

(e) In 1995, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Due to the Standard, insurance assets from 1995 to 2000 are stated at fair value. Prior amounts are stated at amortized cost.

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes. Hillenbrand Industries is organized into two business groups. The Health Care Group, which is considered as one reporting segment, consists of Hill-Rom. Results for Medeco Security Locks, Inc. (Medeco), which was sold on July 1, 1998, were included in this group through this date. Medeco sales included in the Health Care Group were $27 million in 1998. Unless otherwise specifically identified, Medeco related activities are excluded from amounts and explanations related to the Health Care Group throughout the Management's Discussion and Analysis of Results of Operations. The Funeral Services Group consists of two reporting segments, Funeral Services Products (Batesville Casket Company – Batesville) and Funeral Services Insurance (Forethought Financial Services – Forethought).

RESULTS OF OPERATIONS

2000 Compared with 1999

Summary

Consolidated net revenues of $2,096 million increased 2%, or $49 million, in 2000. Approximately $15 million of this increase can be attributed to the 53rd week in fiscal 2000. Fiscal 1999 was, and fiscal 2001 will be, 52-week years. Operating profit increased $33 million, or 16%, to $244 million. Net income of $154 million increased $30 million, or 24%, over 1999 and earnings per share increased 30% to $2.44.

Excluding unusual items discussed below, operating profit decreased 1% and net income increased 5%. 2000 results include net unusual charges of $2 million, net-of-tax, ($.03 per share) related to the retirement of the Company's former Chief Executive Officer; gains from the disposition of facilities idled as part of prior unusual charges; the reversal of certain accruals provided for in prior unusual charges due to actual costs being less than originally estimated; and other items. 1999 results reflect unusual charges of $24 million, net-of-tax, ($.36 per share) related to work force reduction activities, facility closure costs, certain asset impairment charges and other items.

Net Revenues

Health Care sales increased $34 million, or 4%, to $800 million due to strengthening sales in U.S. acute care, Europe and international exports, partially offset by decreased sales in the long-term care market and the negative impact of currency fluctuations. The increase of approximately 5% in U.S. acute care market sales was due to the mid-1999 acquisition of AMATECH and increased shipments in ambulatory, operating room, infant care, and hospital beds and furniture partially offset by decreases in communications and the piped medical gas portion of architectural products. The Company believes that the recent uncertainty experienced by our U.S. acute care customers is beginning to subside as they continue to react to cuts in Medicare reimbursements in their operations. Europe experienced increased sales mainly in the United Kingdom and the Netherlands. Excluding the impact of currency fluctuations, European sales were up approximately 26% compared to 1999. The decrease in long-term care sales was due to several large shipments occurring in 1999 that did not repeat in 2000.

Health Care rental revenue of $312 million decreased $12 million, or 4%, compared to 1999 due to declines in home care, long-term care and Europe, partially offset by an increase in acute care. Rental revenue in the home care market dropped nearly 40% as a result of continued lower Medicare reimbursement experience despite a large increase in unit volume and mix. The U.S. long-term care market also experienced decreased revenue due to declines in volume and mix, partially offset by an increase in rate as this market's customers continue to adjust to changes in Medicare Part A patient reimbursement practices. European rental revenues also fell during the year, but on a local currency basis were flat with 1999. These reductions were partially offset by a 7% increase in acute care rental revenue, that was due to increased volume partially offset by a decrease in mix and rate.

> Batesville Casket Company was able to increase unit volume in a market flat for casketed deaths.

Funeral Services sales grew $15 million, or 2%, to $617 million due to increased unit volume across certain product lines and an improvement in product mix. Batesville Casket Company was once again able to increase unit volume in a market that is flat for casketed deaths.

Insurance revenues of $367 million were up 3%, or $12 million, compared to $355 million in 1999 despite $24 million less in capital gains in 2000 than in 1999. Excluding capital gains in both years, revenues would have increased approximately 11%. Investment income grew approximately $20 million due to the increased size of the investment portfolio and earned premium revenue increased approximately $16 million mainly due to increased policies in-force year over year. 2000 policy sales were up approximately 6% over 1999 as Forethought continues to recover from the loss of policy sales from funeral home consolidators that acquired or started preneed insurance operations to supply their customers policies. Since premium revenues are earned over the life of the policyholder, current year sales will primarily affect revenues and earnings in future years. The trust business did not have a significant effect on Forethought's operations in 2000 or in prior years.

Gross Profit

Gross profit on Health Care sales of $368 million increased $54 million, or 17%, over 1999 and as a percentage of sales was 46% in 2000 compared to 41% in 1999. The significant increase in gross profit and gross profit as a percentage of sales is due to productivity improvements from cost alignment efforts and lower warranty costs and provisions for inventory in 2000.

> Hill-Rom's gross profit as a percentage of sales was 46% in 2000 compared to 41% in 1999.

Health Care rental gross profit declined $2 million, or 2%, to $86 million. Gross profit as a percentage of sales increased to 28% compared to 27% in 1999. This slight increase was primarily due to higher volume in acute care and home care and productivity improvements largely offset by lower Medicare reimbursement experience within the U.S. home care market.

Funeral Services sales gross profit of $305 million increased $13 million, or 4%, compared to $292 million in 1999. As a percentage of sales, Batesville Casket's gross profit was 49%, which is comparable to 1999.

Profit before other operating expenses and unusual charges in insurance operations decreased $15 million, or 18%, to $67 million in 2000. This decrease was primarily due to $24 million less in capital gains and an increase in death benefits paid and reserved due to the larger base of policies in-force, partially offset by increased profits earned on a larger base of policies in-force and higher investment income (with minimal direct cost).

Other Operating Expenses

Other operating expenses, consisting of selling, marketing, distribution and general administrative costs, increased $52 million, or 10% in 2000. As a percentage of consolidated

Statement of Consolidated Income Comparison

	Fiscal Year			Percent Change		
(Dollars in millions)	2000 (53 weeks)	1999	1998	2000/99	1999/98	1998/97
Net revenues:						
Health Care sales	$ 800	$ 766	$ 748	4%	2%	27%
Health Care rentals	312	324	403	(4%)	(20%)	7%
Funeral Services sales	617	602	541	2%	11%	(1%)
Insurance revenues	367	355	309	3%	15%	17%
Total revenues	$2,096	$2,047	$2,001	2%	2%	13%
Gross profit:						
Health Care sales	$ 368	$ 314	$ 320	17%	(2%)	20%
Health Care rentals	86	88	162	(2%)	(46%)	13%
Funeral Services sales	305	292	260	4%	12%	(2%)
Insurance revenues	67	82	76	(18%)	8%	36%
Total gross profit	826	776	818	6%	(5%)	12%
Other operating expenses	579	527	524	10%	1%	13%
Unusual charges	(3)	(38)	(66)	N/A	N/A	N/A
Operating profit	244	211	228	16%	(7%)	(14%)
Other income (expense), net	(4)	(16)	65	N/A	N/A	N/A
Income before income taxes	240	195	293	23%	(33%)	13%
Income taxes	86	71	109	21%	(35%)	7%
Net income	$ 154	$ 124	$ 184	24%	(33%)	17%

revenues, these expenses increased from 26% in 1999 to 28% in 2000 primarily due to increased incentive compensation and company-wide investments in new business development opportunities, offset in part by improved productivity and better cost alignment.

Operating Profit

Health Care operating profit increased $61 million to $116 million. This increase was largely due to an increase in Health Care sales gross profit, resulting from increased Health Care sales and an improvement in gross profit as a percentage of sales. The improvement in gross profit percentage is primarily due to productivity improvements from cost alignment efforts and lower warranty costs and provisions for inventory in 2000. Health Care operating profit was also impacted by a $25 million unusual charge in 1999 related to work force reduction activities, facility closure costs, certain asset impairment charges and other items, while $5 million of income was classified as unusual in 2000. The income recognized in 2000 relates to gains on the sale of facilities idled as part of prior unusual charges and the reversal of accruals provided for in previous unusual charges due to actual costs being less than originally estimated. Excluding unusual charges in 2000 and 1999, operating profit would have been $111 million in 2000 and $80 million in 1999, a 39% increase.

Operating profit in the Funeral Services Group of $182 million increased $9 million, or 5%, compared to 1999. At Batesville Casket, operating profit increased approximately 14% as a result of increased shipments, improved product mix and improved productivity. During 1999, Batesville incurred a $9 million unusual charge related to the closure of a manufacturing facility. Excluding this unusual charge, Batesville's operating profit would have increased approximately 6% in 2000. At Forethought, a $24 million decrease in capital gains was partially offset by higher investment income, increased earned premiums and a decrease in operating expenses, which resulted in a 22% decrease in operating profit. In 2000 and 1999, Forethought incurred unusual charges of $1 million related to the realignment of certain operations and $3 million related to an impaired asset, respectively. Excluding these unusual charges, operating profit would have decreased approximately 25% in 2000.

Excluding unusual charges, Hill-Rom's operating profit increased 39% in 2000.

Consolidated operating profit of $244 million increased $33 million, or 16%. Excluding the unusual charges discussed above as well as a $7 million and $1 million unusual charge in 2000 and 1999, respectively, at the consolidated company level, consolidated operating profit would have been $247 million, a 1% decrease compared to 1999. The unusual charges at the consolidated company level related to the retirement of the Company's former Chief Executive Officer, partially offset by a gain on the sale of a facility idled as part of a prior unusual charge in 2000 and an impaired asset in 1999.

Other Income and Expense

Interest expense of $27 million remained unchanged compared to 1999 as the Company's level of debt was essentially constant until near the end of the year. Investment income increased $8 million primarily from the gain on the sale of an investment.

Income Taxes

The effective income tax rate was 36.1% in 2000 compared to 36.7% in 1999. The decrease in the effective tax rate was primarily due to tax initiatives undertaken by the Company and the profitability of Europe.

RESULTS OF OPERATIONS

1999 Compared with 1998

Summary

Consolidated net revenues of $2,047 million increased $46 million, or 2%, in 1999. Operating profit decreased 7% to $211 million. Net income of $124 million decreased 33%, and earnings per share decreased 32% to $1.87.

Excluding the unusual items discussed in the remainder of this paragraph, operating profit decreased 15% and net income decreased 17%. 1999 results reflect unusual charges of $24 million, net-of-tax, ($.36 per share) related to work force reduction activities, facility closure costs, certain asset impairment charges and other items. 1998 results reflect income of $47 million, net-of-tax, ($.70 per share) related to the sale of Medeco. The Company also recorded unusual charges in 1998 totaling $42 million, net-of-tax, ($.62 per share). These charges included the write-off of goodwill, other asset impairment charges and other closing costs related to the discontinuance of manufacturing operations at Hill-Rom facilities in Germany and Austria; tax benefits related to the write-off of the Company's investments in Germany and Austria; and provisions for certain income tax exposures.

Forethought revenues increased $12 million in 2000.

Net Revenues

Health Care sales of $766 million increased $45 million, or 6%, due to continued good market acceptance of the TotalCare® bed and increased shipments of communications and procedural products in Hill-Rom's U.S. acute care market. Hill-Rom also experienced increased shipments of the Resident® LTC bed as it continued to have good market acceptance. North American sales decreased compared to 1998 during the third and fourth quarters of 1999. The Company believes these declines were attributable to some shipment delays and decreased orders by our acute care customers as they responded to uncertainty and cuts in Medicare reimbursements in their operations. European revenues decreased slightly compared to 1998 primarily due to decreased sales in Germany and Austria, which were impacted by the discontinuance of manufacturing in these countries during fiscal 1999.

Health Care rental revenue was down $79 million, or 20%. Nearly all of the decrease was in the U.S. long-term care market, which experienced lower rates, product mix and volume as a result of changes in Medicare Part A patient reimbursement practices effective July 1, 1998. U.S. acute care and European rental revenues were slightly above 1998 levels. In the U.S. acute care market, higher volume was offset by lower rates with very little change in product mix.

Key Financial Data

	2000 (53 weeks)	1999	1998	1997	1996
Income Statement					
% Pretax, preinterest expense, income (EBIT) to revenues	13	11	16	16	15
% Pretax, preinterest expense, pre-depreciation and amortization expense, income (EBITDA) to revenues *(a)*	17	16	23	22	21
% Net income to revenues	7	6	9	9	8
% Income taxes to pretax income	36	37	37	39	40
Balance Sheet					
% Long-term debt-to-total capital	27	26	24	19	21
% Total debt-to-total capital	27	31	29	24	28
Current assets/current liabilities *(b)*	2.6	2.1	2.3	2.3	2.2
Working capital turnover *(b) (c)*	5.6	7.0	9.1	15.4	13.6
Profitability					
% Return on total capital	14	11	15	14	14
% Return on average shareholders' equity	19	13	21	20	19
Asset Turnover					
Revenues/inventories *(b)*	15.4	15.0	16.1	19.1	15.3
Revenues/receivables *(b)*	4.2	4.1	4.3	4.5	5.1
Stock Market					
Year-end price/earnings (P/E)	21	19	21	20	18
Year-end price/book value	3.8	2.8	4.1	3.4	3.3

(a) EBITDA is the sum of operating profit, investment income, other income and expense and depreciation and amortization expense including the write-down of intangibles. The Company's EBITDA, which represents a non-GAAP measure of cash flow, may not be comparable to other companies' EBITDA due to differences in the calculation.
(b) Excludes insurance operations.
(c) Excludes cash.

The U.S. home care market experienced lower revenues compared to 1998 as a result of lower reimbursement experience partially offset by higher volume and product mix.

Funeral Services sales grew $61 million, or 11%, to $602 million due to increased unit volume across all product lines and an increase in product mix. In 1999, Batesville was able to continue to increase unit volume in a market that is currently flat for casketed deaths.

Insurance revenues increased $46 million or 15% at Forethought. Earned premium revenue increased approximately $25 million due primarily to increased policies in-force year over year. Investment income grew about $18 million because of the increased size of the investment portfolio. Realized net gains on the sale of investments were approximately $3 million more than in 1998. Policy sales were down nearly 13% in 1999 primarily due to several funeral home consolidators recently acquiring or starting preneed insurance operations to supply their customers policies. Since premium revenues are earned over the life of the policyholder, current year sales will primarily affect revenues and earnings in future years. The trust business did not have a significant effect on Forethought's operations in 1999 and prior years.

Net cash generated from operating activities increased $112 million in 2000.

Gross Profit

Gross profit on Health Care sales of $314 million decreased $7 million, or 2%. As a percentage of sales, gross profit was approximately 41% in 1999 versus 43% in 1998. The decline in gross profit as a percentage of sales was primarily due to increased warranty costs, product mix, increased provisions for inventory and other items partially offset by increased volume. Continuous improvement initiatives in the United States and Europe helped to partially offset the lower gross profit margin.

Gross profit on Health Care rentals was down $74 million, or 46%, to $88 million. In addition, gross profit as a percentage of sales decreased to 27% in 1999 compared to 40% in 1998. This decline reflects the changes in Medicare Part A reimbursement practices affecting the U.S. long-term care market and, to a smaller extent, lower reimbursement experience within the U.S. home care market. A slight increase in gross margin percentage in the acute care market partially offset the impact of these other matters.

Funeral Services sales gross profit increased 12%, or $32 million, to $292 million in 1999. As a percentage of sales, Batesville's gross profit increased one percentage point to 49% compared to 48% in 1998. This increase in gross profit percentage reflects the increased unit volume experienced in 1999 combined with successful process improvements and cost controls.

Profit before other operating expenses and unusual charges in insurance operations increased $6 million, or 8%, to $82 million in 1999 due to increased profits earned on a larger base of policies in-force, higher investment income (with minimal direct cost) and net gains on the sale of investments. Consistent with prior years, these items were partially offset by an increase in death benefits paid and reserved due to the larger base of policies in-force.

Other Operating Expenses

These expenses, consisting of selling, marketing, distribution and general administrative costs, increased $3 million, or 1% in 1999. As a percentage of consolidated revenues, these expenses remained essentially unchanged at 26% compared to 1998. This is a result of continued cost control, process improvement throughout the Company and lower incentive compensation.

Operating Profit

Operating profit in Health Care decreased $23 million, or 29%, to $55 million. This decrease was primarily due to a large decline in rental revenue and a $25 million unusual charge related to work force reduction activities, facility closure costs, certain asset impairment charges and other items. The large decrease in rental revenue was primarily due to changes in Medicare Part A reimbursement practices affecting the U.S. long-term care market. 1998 operating profit at Hill-Rom was negatively impacted by a $70 million charge for the write-off of goodwill, other asset impairment charges and other closing costs related to the discontinuance of manufacturing operations at facilities in Germany and Austria. Excluding these charges in 1999 and 1998, operating profit would have been $80 million in 1999 and $148 million in 1998, or a 46% decrease.

Operating profit in the Funeral Services Group of $173 million increased $3 million, or 2%, from 1998. At Batesville, operating profit increased significantly in 1999 as a result of increased shipments and improved product mix. During 1999, Batesville incurred a $9 million unusual charge related to the closure of a manufacturing facility. Excluding this charge, Batesville's operating profit would have increased approximately 15%. At Forethought, higher investment income, increased earned premiums and higher capital gains were more than offset by increased expenses, most of which were related to new business development, and an unusual charge of $3 million related to an impaired asset. Excluding the unusual charge incurred by Forethought, operating profit would have decreased 15%. Excluding the unusual charges incurred by both Batesville and Forethought in 1999, Funeral Services Group operating profit would have increased about 9%.

Consolidated operating profit of $211 million decreased $17 million, or 7%. Excluding the unusual charges discussed above and a $1 million unusual charge at the consolidated company level, consolidated operating profit would have been $249 million in 1999 compared to $298 million in 1998, a 16% decrease.

Other Income and Expense

Interest expense was unchanged compared to 1998 as the Company's level of long-term debt was essentially constant. Investment income decreased $3 million primarily due to a lower average balance of cash, cash equivalents and short-term investments throughout 1999. Excluding the gain of $75 million on the sale of Medeco in 1998, other income and expense, net decreased $3 million.

Income Taxes

The effective income tax rate was 36.7% for 1999 and 37.0% for 1998. The 1998 tax rate includes the recognition of a tax benefit associated with the discontinuance of manufacturing operations in Germany and Austria. The decrease in the tax rate for 1999 reflects a reduction in state taxes and lower operating losses in Europe.

The Company's long-term debt-to-capital ratio was 27% in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash flows from operating activities and selected borrowings represent the Company's primary source of funds for growth of the business, including capital expenditures and acquisitions. Cash, cash equivalents and short-term investments (excluding investments of insurance operations) at December 2, 2000 decreased $38 million to $132 million compared to November 27, 1999, mainly due to capital expenditures, the purchase of treasury stock, the repayment of short-term debt totaling $56 million and the payment of cash dividends partially offset by cash generated from operating activities.

Operating Activities

Net cash generated by operating activities of $296 million increased $112 million compared to 1999. Contributing to the improvement were increased earnings and favorable movements in most components of working capital.

The decrease in depreciation, amortization and write-down of intangibles is due to a 1999 unusual charge of $3 million consisting of a write-off of goodwill related to an asset impairment and a decrease in the manufacture of new rental units in 2000. The favorable changes in working capital are due to good working capital management. Consolidated days revenues outstanding in accounts receivable decreased to 80 in 2000 compared to 86 in 1999 as a result of company-wide efforts to decrease this measure in 2000 along with increased provisions for unrecoverable receivables in the Health Care rental business. Accrued expenses and other liabilities decreased in 2000 due to a reduction in income taxes payable, along with reduced accruals related to unusual charges and warranty related matters.

Investing Activities

Net cash used in investing activities increased to $321 million compared to $266 million in 1999. This increase was due to $27 million in additional capital expenditures in 2000, along with unfavorable effects from investment activities at Forethought.

Forethought invests the cash proceeds on insurance premiums predominantly in U.S. Treasuries and agencies and high-grade corporate bonds with fixed maturities. The Company's objective is to purchase investment securities with maturities that match the expected cash outflows of policy benefit payments. The investment portfolio is periodically realigned to better meet this objective, as reflected in the relatively large amount of sales prior to maturity. Sales prior to maturity resulted in a net loss in 2000 and net gains in 1999 and 1998.

Financing Activities

The Company's long-term debt-to-capital ratio was 27% at year-end 2000 compared to 26% at year-end 1999. This slight increase was primarily due to a $7 million decrease in the Company's equity resulting from the purchase of treasury stock, a decrease in accumulated other comprehensive (loss) income and the payment of normal dividends partially offset by current year earnings.

During the fourth quarter of fiscal 2000, the Company repaid $52 million of short-term debt denominated in Euros.

Quarterly cash dividends per share were $.18 in 1998, $.195 in 1999 and $.20 in 2000. An additional increase to $.21 per share was approved by the Board of Directors in January 2001 for the first quarter of 2001.

Insurance Assets and Liabilities

Insurance assets of $3,314 million grew 7% over the past year. Cash and invested assets of $2,465 million constitute 74% of the assets. The investments are concentrated in U.S. Treasuries and agencies and high-grade corporate bonds, with smaller investments in equities and foreign denominated securities. The invested assets are more than adequate to fund the insurance reserves and other liabilities of $2,336 million. Statutory reserves represent 62% of the face value of insurance in-force. Forethought Life Insurance Company made dividend payments to Hillenbrand Industries of $24 million and $14 million in January 2001 and in 1998, respectively. The statutory capital and surplus as a percentage of statutory liabilities of Forethought was 12% and 11% at December 31, 2000 and 1999, respectively. The non-current deferred tax benefit relative to insurance operations results from differences in recognition of insurance policy revenues and expenses for financial accounting and tax reporting purposes. Financial accounting rules require ratable recognition of insurance product revenues over the lives of the respective policyholder. These revenues are recognized in the year of policy issue for tax purposes. This results in a deferred tax benefit. Insurance policy acquisition expenses must be capitalized and amortized for both financial accounting and tax purposes, although under different methods and amounts. Financial accounting rules require a greater amount to be capitalized and amortized than for tax reporting. This results in a deferred tax cost, which partially offsets the deferred tax benefit. Excluding the tax effect of adjusting the investment portfolio to fair value, the net deferred tax benefit remained essentially unchanged in 2000 and 1999.

Shareholders' Equity

Cumulative treasury stock acquired in open market and private transactions increased to 19,502,767 shares in 2000, up from 18,322,467 shares in 1999. The Company currently has Board of Directors' authorization to repurchase up to a total of 24,289,067 shares. Repurchased shares are to be used for general business purposes. From the cumulative shares acquired, 45,185 shares, net of shares converted to cash to pay withholding taxes, were reissued in 2000 to individuals under the provisions of the Company's various stock-based compensation plans.

OTHER ISSUES

Accounting Standards

The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998. This Standard, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities and requires that all derivatives be recognized on the balance sheet at fair value. As the Company is not active in the use of derivative products or arrangements, adoption of this Standard will not have a material effect on the Company's consolidated financial statements. The Company will adopt the Standard in the first quarter of fiscal 2001.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB No. 101) "Revenue Recognition in Financial Statements." The Company is currently studying the impact of adopting SAB No. 101, as amended, which is required to be adopted no later than the fourth quarter of fiscal 2001, but believes its effect will be immaterial.

Unusual Charges

2000 Actions

On October 11, 2000, the Company announced that W August Hillenbrand, Chief Executive Officer, would retire effective December 2, 2000. In relation to Mr. Hillenbrand's retirement, the Company incurred a charge of $8 million related to future payments and other compensation related items under the terms of the retirement agreement. This charge is reflected within the Unusual charges line of the Statement of Consolidated Income.

In November 2000, Forethought announced the realignment of certain of its operations. Forethought incurred an unusual charge of $1 million in relation to this realignment.

1999 Actions

In November 1999, the Company announced a plan to reduce the future operating cost structure at Hill-Rom, to write-down the value of certain impaired assets and to recognize a liability associated with the estimated cost of a field corrective action for a previously acquired product line. The total estimated cost of these actions necessitated an unusual charge of $29 million in the fourth quarter of 1999. The cash component of this charge was $19 million.

Included in the cost-cutting actions announced at Hill-Rom was the reduction of 350 employees in the United States and Europe and the closure of select manufacturing and sales, service/distribution facilities in the United States and Europe. Estimated costs for the work force and facility closure actions were $8 million and $3 million, respectively.

The unusual charge also included $10 million relative to asset impairments for a small Hill-Rom investment that has been liquidated and the write-off of other strategic investments which have discontinued operations.

The remaining component of the 1999 fourth quarter unusual charge related to an $8 million field corrective action taken relative to a previously acquired product line.

As of December 2, 2000, approximately $7 million in work force reduction costs, $2 million in facility closure costs and $4 million related to the field corrective action have been incurred. The Company expects substantially all employee-related costs to be completed within the next three months as the payments to previously eliminated employees are completed. The facility closures are near completion and the field corrective action is expected to be completed by the end of the third quarter of 2001.

During 2000, approximately $2 million of the original 1999 provision was reversed to income within the Unusual charges line of the Statement of Consolidated Income as actual costs incurred were favorable to those originally expected.

In March 1999, Batesville Casket Company announced the planned closing of its Campbellsville, Kentucky casket manufacturing plant. Approximately 200 employees were affected and the closure necessitated a $9 million unusual charge in the second quarter of 1999. Production of Campbellsville casket units was transferred to existing plants located in Batesville, Indiana and Manchester, Tennessee. All accrued costs related to this action have been incurred. The idled facility was sold in October 2000 for a gain of $1 million which is reflected within the Unusual charges line of the Statement of Consolidated Income.

1998 Actions

In August 1998, the Company approved a plan to close all manufacturing facilities in Germany and Austria. The plan necessitated the provision of a $70 million asset impairment and restructuring charge including a non-cash charge of $53 million for the write-off of goodwill and other asset impairments. The plan also included additional charges for severance and employee benefit costs of $10 million and other estimated plant closing costs of $7 million.

Manufacturing operations were discontinued in Germany and Austria by the second quarter of 1999 and all actions required under the plan have been completed. During 2000 and 1999, approximately $1 million and $2 million of the originally recorded provisions were reversed to income within the Unusual charges line of the Statement of Consolidated Income as actual costs were less than originally estimated.

The disposition of the facility in Austria was completed in December 1999 for a gain of $2 million and the facility in Germany was sold in November 2000 for a gain of $1 million. These gains are reflected within the Unusual charges line of the Statement of Consolidated Income.

Other

In addition to costs accrued under the above outlined plans, approximately $1 million and $2 million of incremental costs were incurred in relation to these actions in 2000 and 1999, respectively. These incremental costs were expensed as incurred as required by generally accepted accounting principles and are included within the Unusual charges line of the Statement of Consolidated Income as such incremental costs were incurred directly in conjunction with the execution of the respective plans.

The reserve balances for the above plans included in other current liabilities approximated $8 million and $21 million as of December 2, 2000 and November 27, 1999, respectively. The reserve balance included in other long-term liabilities for the retirement of the Company's CEO is approximately $7 million as of December 2, 2000.

Environmental Matters

Hillenbrand Industries is committed to operating all of its businesses in a way that protects the environment. The Company has voluntarily entered into remediation agreements with environmental authorities, and has been issued Notices of Violation alleging violations of certain permit conditions. Accordingly, the Company is in the process of implementing plans of abatement in compliance with agreements and regulations. The Company has also been notified as a potentially responsible party in investigations of certain offsite disposal facilities. The cost of all plans of abatement and waste-site cleanups in which the Company is currently involved is not expected to exceed $5 million. The Company has provided adequate reserves in its financial statements for these matters. These reserves have been determined without consideration of possible loss recoveries from third parties. Compliance with other current governmental provisions relating to protection of the environment are not expected to materially affect the Company's capital expenditures, earnings or competitive position. Further changes in environmental law might affect the Company's future operations, capital expenditures and earnings; however, the cost of complying with these provisions, if any, is not known.

Factors that May Affect Future Results

Legislative changes phased in beginning July 1, 1998 have had, and may continue to have, a dampening effect on the Company's rental revenue derived from Medicare patients in the long-term care market.

Cuts in Medicare funding mandated by the Balanced Budget Act of 1997 (BBA) have had, and could continue to have, an adverse effect on the Company's health care sales derived from the acute-care market. However, based on recent order patterns, the Company does believe the acute-care market is starting to adapt to these cuts in Medicare funding.

The Company is experiencing, and may continue to experience, pressure on reimbursement rates related to its home care rental business.

On January 22, 2001, the Company announced that it would realign its home care and long-term care businesses. Due to this action, the Company expects rental revenues to decrease over the near-term and, on an annual basis, to reduce fixed expenses between $18 million and $20 million.

The market for casketed deaths is expected to remain flat for the foreseeable future. Batesville Casket has been able to increase its share of this market, as well as the growing cremation market, by providing innovative products and marketing programs for its funeral director customers.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks, including fluctuations in interest rates, mismatches in funding obligations and receipts and variability in currency exchange rates. The Company has established policies, procedures and internal processes governing its management of market risks and the use of financial instruments to manage its exposure to such risks.

The Company's insurance operation is subject to fluctuations in interest rates on its investment portfolio and, to a lesser extent, prepayment and equity pricing risks. The investment portfolio is concentrated in high-grade corporate, foreign and U.S. agency and Treasury bonds with predominantly fixed interest rates. The portfolio is managed in accordance with the Company's objective to substantially match investment durations with policy liability durations and within applicable insurance industry regulations. Investments may be liquidated prior to maturity to meet the matching objective and manage fluctuations in interest rates and prepayments. They are, accordingly, classified as "available for sale" and are not purchased for trading purposes. The Company uses various techniques, including duration analysis, to assess the sensitivity of the investment portfolio to interest rate fluctuations, prepayment activity, equity price changes and other risks. The insurance operation also performs and reports results for asset adequacy analysis as required by the National Association of Insurance Commissioners. Based on the duration of the investment portfolio at December 2, 2000 and November 27, 1999, a hypothetical 10% increase in weighted average interest rates could reduce the market value of the investment portfolio approximately $121 and $111 million, respectively, over a 12-month period. The Company believes its investment policy minimizes the risk of adverse fluctuation in surplus value. In addition, the long-term fixed nature of portfolio assets reduces the effect of short-term interest rate fluctuations on earnings.

The Company is subject to variability in foreign currency exchange rates primarily in its European operations. Exposure to this variability is periodically managed primarily through the use of natural hedges, whereby funding obligations and assets are both managed in the local currency. The Company, from time to time, enters into currency exchange agreements to manage its exposure arising from fluctuating exchange rates related to specific transactions. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an appropriate range of potential rate fluctuations to the Company's assets, obligations and projected results of operations denominated in foreign currencies. Based on the Company's overall currency rate exposure at December 2, 2000, movements in currency rates would not materially affect the financial position of the Company.

Statements of Consolidated Income

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions except per share data)

Year Ended	December 2, 2000 (53 weeks)	November 27, 1999	November 28, 1998
Net Revenues			
Health Care sales	$ 800	$ 766	$ 748
Health Care rentals	312	324	403
Funeral Services sales	617	602	541
Insurance revenues	367	355	309
Total revenues	2,096	2,047	2,001
Cost of Revenues			
Health Care cost of goods sold	432	452	428
Health Care rental expenses	226	236	241
Funeral Services cost of goods sold	312	310	281
Insurance cost of revenues	300	273	233
Total cost of revenues	1,270	1,271	1,183
Gross Profit	826	776	818
Other operating expenses	579	527	524
Unusual charges (Note 5)	(3)	(38)	(66)
Operating Profit	244	211	228
Other income (expense), net:			
Interest expense	(27)	(27)	(27)
Investment income, net	24	16	19
Other (Note 4)	(1)	(5)	73
Income Before Income Taxes	240	195	293
Income taxes	86	71	109
Net Income	$ 154	$ 124	$ 184
Basic and Diluted Net Income per Common Share	$ 2.44	$ 1.87	$ 2.73
Dividends per Common Share	$ .80	$ .78	$ .72
Average Number of Common Shares Outstanding	62,912,909	66,295,770	67,577,803

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

	December 2, 2000	November 27, 1999
ASSETS		
Current Assets		
Cash, cash equivalents and short-term investments	$ 132	$ 170
Trade accounts receivable, less allowances of		
$61 in 2000 and $54 in 1999	407	413
Inventories (Note 1)	112	113
Other	73	86
Total current assets	724	782
Equipment Leased to Others (Note 1)	244	273
Less accumulated depreciation	177	204
Equipment leased to others, net	67	69
Property (Note 1)	617	624
Less accumulated depreciation	412	426
Property, net	205	198
Other Assets		
Intangible assets at amortized cost:		
Patents and trademarks	14	19
Excess of cost over net asset values of acquired companies (Note 3)	145	159
Other	22	14
Deferred charges and other assets	106	101
Total other assets	287	293
Insurance Assets (Note 13)		
Investments	2,465	2,311
Deferred acquisition costs	636	584
Deferred income taxes	100	79
Other	113	117
Total insurance assets	3,314	3,091
Total Assets	$4,597	$4,433

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

	December 2, 2000	November 27, 1999
LIABILITIES		
Current Liabilities		
Short-term debt (Notes 6 and 9)	$ –	$ 52
Trade accounts payable	68	80
Income taxes payable (Note 11)	16	22
Accrued compensation	89	53
Other	109	164
Total current liabilities	282	371
Long-Term Debt (Notes 6 and 9)	302	302
Other Long-Term Liabilities (Note 7)	85	68
Deferred Income Taxes (Notes 1 and 11)	3	3
Insurance Liabilities (Note 13)		
Benefit reserves	2,276	2,092
Unearned revenue	758	719
General liabilities	60	40
Total insurance liabilities	3,094	2,851
Total Liabilities	3,766	3,595
Commitments and Contingencies (Note 15)		
SHAREHOLDERS' EQUITY (Notes 7 and 8)		
Common stock — without par value:		
Authorized — 199,000,000 shares		
Issued — 80,323,912 shares in 2000 and 1999	4	4
Additional paid-in capital	24	24
Retained earnings (Note 6)	1,397	1,293
Accumulated other comprehensive loss (Note 1)	(108)	(38)
Treasury stock, at cost: 2000 — 17,919,611 shares;		
1999 — 16,777,137 shares	(486)	(445)
Total Shareholders' Equity	831	838
Total Liabilities and Shareholders' Equity	$4,597	$4,433

See Notes to Consolidated Financial Statements.

Statements of Consolidated Cash Flows

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

Year Ended	December 2, 2000 (53 weeks)	November 27, 1999	November 28, 1998
Operating Activities			
Net income	$ 154	$ 124	$ 184
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation, amortization and write-down of intangibles	89	98	149
Change in noncurrent deferred income taxes	6	(2)	(3)
Gain on sale of business	–	–	(75)
Change in working capital excluding cash, current debt, acquisitions and dispositions:			
Trade accounts receivable	6	(18)	(36)
Inventories	1	(6)	(2)
Other current assets	12	(21)	2
Trade accounts payable	(12)	10	(12)
Accrued expenses and other liabilities	(25)	(6)	(14)
Change in insurance deferred policy acquisition costs	(52)	(48)	(63)
Change in insurance unearned revenue	39	45	69
Change in other insurance items, net	82	39	28
Other, net	(4)	(31)	(5)
Net cash provided by operating activities	296	184	222
Investing Activities			
Capital expenditures	(106)	(79)	(88)
Proceeds on disposal of property and equipment leased to others	13	4	10
Acquisitions of businesses, net of cash acquired	–	(54)	(188)
Other investments	(3)	(4)	(11)
Proceeds on sale of business	–	–	64
Insurance investments:			
Purchases	(814)	(797)	(746)
Proceeds on maturities	161	177	168
Proceeds on sales	428	487	364
Net cash used in investing activities	(321)	(266)	(427)
Financing Activities			
Additions to short-term debt	14	12	39
Reductions to short-term debt	(56)	(13)	(13)
Additions to long-term debt	1	–	101
Reductions to long-term debt	–	(1)	(1)
Payment of cash dividends	(50)	(52)	(48)
Treasury stock acquired	(42)	(113)	(85)
Insurance deposits received	375	361	355
Insurance benefits paid	(251)	(237)	(210)
Net cash (used in) provided by financing activities	(9)	(43)	138
Effect of Exchange Rate Changes on Cash	(4)	(2)	–
Total Cash Flows	(38)	(127)	(67)
Cash, Cash Equivalents and Short-Term Investments			
At beginning of year	170	297	364
At end of year	$ 132	$ 170	$ 297

See Notes to Consolidated Financial Statements.

Statements of Consolidated Shareholders' Equity

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at November 29, 1997	$ 4	$18	$1,085	$ 31	$(248)	$890
Comprehensive Income						
Net income	–	–	184	–	–	184
Foreign currency translation adjustment	–	–	–	(4)	–	(4)
Net change in unrealized gain (loss) on available for sale securities	–	–	–	18	–	18
Total comprehensive income						198
Dividends	–	–	(48)	–	–	(48)
Treasury shares acquired (1,768,100)	–	–	–	–	(85)	(85)
Other	–	2	–	–	–	2
Balance at November 28, 1998	4	20	1,221	45	(333)	957
Comprehensive Income						
Net income	–	–	124	–	–	124
Foreign currency translation adjustment	–	–	–	(1)	–	(1)
Net change in unrealized gain (loss) on available for sale securities	–	–	–	(82)	–	(82)
Total comprehensive income						41
Dividends	–	–	(52)	–	–	(52)
Treasury shares acquired (3,255,300)	–	–	–	–	(113)	(113)
Other	–	4	–	–	1	5
Balance at November 27, 1999	4	24	1,293	(38)	(445)	838
Comprehensive Income						
Net income	–	–	154	–	–	154
Foreign currency translation adjustment	–	–	–	(20)	–	(20)
Net change in unrealized gain (loss) on available for sale securities	–	–	–	(50)	–	(50)
Total comprehensive income						84
Dividends	–	–	(50)	–	–	(50)
Treasury shares acquired (1,180,300)	–	–	–	–	(42)	(42)
Other	–	–	–	–	1	1
Balance at December 2, 2000	$ 4	$24	$1,397	$(108)	$(486)	$831

See Notes to Consolidated Financial Statements.

(Dollars in millions except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, except for several small subsidiaries which provide ancillary services to the Company and the public. Their results of operations appear in the income statement, net of income taxes, under the caption "Other income (expense), net." Material inter-company accounts and transactions have been eliminated in consolidation.

The Company's fiscal year is the 52 or 53 week period ending the Saturday nearest November 30.

Nature of Operations

Hillenbrand Industries is organized into two groups – the Health Care Group and the Funeral Services Group. The Health Care Group, which is considered a separate reporting segment, consists of Hill-Rom. Medeco Security Locks, Inc. was included in this group prior to its sale in 1998 based upon its relative immateriality. Hill-Rom is a leading manufacturer of patient care products and a leading provider of specialized rental therapy products designed to assist in managing the complications of patient immobility. Its products and services are marketed to acute and long-term health care facilities and home care patients primarily in North America and Europe. The Health Care segment generated 53% of Hillenbrand's revenues in 2000. The Funeral Services Group consists of two reporting segments, Funeral Services Products (Batesville Casket Company – Batesville) and Funeral Services Insurance (Forethought Financial Services – Forethought). Batesville is a leading producer of metal and hardwood burial caskets, cremation urns and caskets and marketing support services. Its products are marketed to licensed funeral directors operating licensed funeral homes primarily in North America. Batesville generated 29% of Hillenbrand's revenues in 2000. Forethought provides funeral homes in 49 U.S. states, the District of Columbia, Puerto Rico and nine Canadian provinces with marketing support for Forethought® funeral plans funded by life insurance policies and trust products. It entered the preneed trust market in 1997. Forethought generated 18% of Hillenbrand's revenues in 2000.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Short-Term Investments

The Company considers investments in marketable securities and other highly liquid instruments with a maturity of three months or less at date of purchase to be cash equivalents. Investments with a maturity at the date of purchase greater than three months or which have no stated maturity are considered short-term investments. All of the Company's short-term investments contain put options or may be freely traded. Cash, cash equivalents and short-term investments at year end consist of the following:

	2000	1999
Cash and cash equivalents	$ 43	$ 26
Short-term investments	89	144
Total	$132	$170

Inventories

Inventories are valued at the lower of cost or market. Inventory costs are determined by the last-in, first-out (LIFO) method for approximately 59% and 52% of the Company's inventories at December 2, 2000 and November 27, 1999, respectively. Costs for other inventories have been determined principally by the first-in, first-out (FIFO) method. Inventories at year end consist of the following:

	2000	1999
Finished products	$ 73	$ 67
Work in process	26	31
Raw materials	13	15
Total	$112	$113

If the FIFO method of inventory accounting, which approximates current cost, had been used for all inventories, they would have been approximately $7 million higher than reported at December 2, 2000 and November 27, 1999, respectively.

Equipment Leased to Others

Equipment leased to others primarily represents therapy rental units, which are recorded at cost and depreciated on a straight-line basis over their estimated economic life. The majority of these units are leased on a day-to-day basis.

Property

Property is recorded at cost and depreciated over the estimated useful life of the assets using principally the straight-line method. Generally, when property is retired from service or otherwise disposed of, the cost and related amount of depreciation or amortization are eliminated from the asset and reserve accounts, respectively. The difference, if any, between the net asset value and the proceeds is charged or credited to income. The major components of property at the end of 2000 and 1999 were:

	2000	1999
Land	$ 15	$ 17
Buildings and building equipment	132	148
Machinery and equipment	470	459
Total	$617	$624

Intangible and Other Non-current Assets

Intangible assets are stated at cost and amortized on a straight-line basis over periods ranging from 3 to 40 years. The Company reviews intangible and other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the undiscounted expected future cash flows from use of the asset are less than the carrying value, an impairment loss is recognized. The amount of the impairment loss is determined by comparing the discounted expected future cash flows with the carrying value.

Intangible asset write-offs approximated $3 million and $43 million in 1999 and 1998, respectively. See Note 5 for additional information.

Accumulated amortization of intangible assets was $108 million and $99 million as of December 2, 2000 and November 27, 1999, respectively.

Investments

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company has classified its investments in debt and equity securities as "available for sale" and reported them at fair value on the balance sheet. Unrealized gains and losses are charged or credited to accumulated other comprehensive (loss) income in shareholders' equity and deferred taxes are recorded for the income tax effect of such unrealized gains and losses. The fair value of each security is based on the market value provided by brokers/ dealers or estimates made by management in situations where no quoted price is available.

Environmental Liabilities

Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. A reserve is established when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These reserves are determined without consideration of possible loss recoveries from third parties. More specifically, each quarter, financial management, in consultation with its environmental engineer, estimates the range of liability based on current interpretation of environmental laws and regulations. For each site in which a Company unit is involved, a determination is made of the specific measures that are believed to be required to remediate the site, the estimated total cost to carry out the remediation plan and the periods in which the Company will make payments toward the remediation plan. The Company does not make an estimate of general or specific inflation for environmental matters since the number of sites is small, the magnitude of costs to execute remediation plans are not significant and the estimated time frames to remediate sites are not believed to be lengthy.

Specific costs included in environmental expense are site assessment, development of a remediation plan, cleanup costs, post-remediation expenditures, monitoring, fines, penalties and legal fees. The reserve represents the expected undiscounted future cash outflows.

Expenditures that relate to current operations are charged to expense.

Revenue Recognition

Sales are recognized upon delivery of products to customers for Funeral Services products and upon shipment of products to customers for Health Care products. Rental revenues are recognized when services are rendered.

Cost of Revenues

Health Care and Funeral Services cost of goods sold consist primarily of purchased material costs, fixed manufacturing expense, and variable direct labor and overhead costs. Health Care rental expenses are those costs associated directly with rental revenue, including depreciation and service of the Company's therapy rental units, service center facility and personnel costs, and regional sales expenses.

Earnings Per Common Share

Basic earnings per share is calculated based upon the weighted-average number of outstanding common shares for the period, plus the effect of deferred vested shares. Diluted earnings per share is calculated consistent with the basic earnings per share calculation including the effect of dilutive potential common shares. For all years presented, anti-dilutive stock options were excluded in the calculation of dilutive earnings per share.

Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" in the first quarter of 1999. The adoption of this Standard did not affect the Company's financial position or results of operations. SFAS No. 130 requires unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income.

The composition of accumulated other comprehensive (loss) income at December 2, 2000 and November 27, 1999 is the cumulative adjustment for unrealized losses or gains on available-for-sale securities, mainly relating to the insurance portfolio, of ($80) million and ($30) million, respectively, and the foreign currency translation adjustment of ($28) million and ($8) million, respectively.

Stock-Based Compensation
SFAS No. 123, "Accounting for Stock-Based Compensation," encourages companies to adopt a fair-value approach to valuing stock-based compensation. The Company has elected, as permitted by the Standard, to continue to follow its intrinsic value-based method of accounting for its stock-based compensation plans consistent with the provisions of APB No. 25. Under the intrinsic method, compensation cost for stock-based compensation is measured as the excess, if any, of the quoted market price of the instrument at the measurement date over the exercise price. The Company has provided the pro forma disclosures required by SFAS No. 123 in Note 7.

Income Taxes
The Company and its eligible domestic subsidiaries file a consolidated U.S. income tax return. Foreign operations file income tax returns in a number of jurisdictions. Deferred income taxes are computed in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts.

Foreign Currency Translation
Assets and liabilities of foreign operations are primarily translated into U.S. dollars at year-end rates of exchange and the income statements are translated at the average rates of exchange prevailing during the year. Adjustments resulting from translation of the financial statements of foreign operations into U.S. dollars are excluded from the determination of net income, but included as a component of comprehensive income. Foreign currency gains and losses resulting from foreign currency transactions are included in results of operations and are not material.

Insurance Liabilities, Recognition of Insurance Policy Income, and Related Benefits and Expenses
Forethought Life Insurance Company, Forethought Life Assurance Company and Arkansas National Life Insurance Company sell certain long duration contracts. Revenue is recognized on traditional limited pay life insurance contracts when due. Premiums received in excess of the portion required to provide for all benefits and expenses is deferred and recognized in income in a constant relationship with the actuarially determined life of the contract. Benefit reserves for these life insurance contracts are calculated using the net-level-premium method, based on assumptions as to investment yields, mortality, withdrawals and credited interest. These assumptions are made at the time the contract is issued.

For annuity contracts, the companies record premium deposits or benefit payments as increases or decreases to the insurance liability, rather than as revenue and expense. Revenue is recognized on amounts charged against the liability account such as, cost of insurance, administration fees and surrender penalties. Expenses are recorded for any interest credited to the account and any benefit payments that exceed the contract liabilities.

Deferred Acquisition Costs
Policy acquisition costs, consisting of commissions, certain policy issue expenses and premium taxes, vary with, and are primarily related to, the production of new business. These deferred acquisition costs are being amortized consistently with unearned revenues. Amortization charged to expense for the years ended December 2, 2000 and November 27, 1999 was $45 million and $42 million, respectively.

Reclassification
Certain prior year amounts have been reclassified to conform to the current year's presentation.

Accounting Standards
The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998. This Standard, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities and requires that all derivatives be recognized on the balance sheet at fair value. As the Company is not active in the use of derivative products or arrangements, adoption of this Standard will not have a material effect on the Company's consolidated financial statements. The Company will adopt the Standard in the first quarter of fiscal 2001.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB No. 101) "Revenue Recognition in Financial Statements." The Company is currently studying the impact of adopting SAB No. 101, as amended, which is required to be adopted no later than the fourth quarter of fiscal 2001, but believes its effect will be immaterial.

2. RETIREMENT PLANS

The Company and its subsidiaries have several defined benefit retirement plans covering the majority of employees, including certain employees in foreign countries. The Company contributes funds to trusts as necessary to provide for current service and for any unfunded projected future benefit obligation over a reasonable period. The benefits for these plans are based primarily on years of service and the employee's level of compensation during specific periods of employment.

Effective November 27, 1999, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Standard revised disclosure requirements for employers' pensions and other retiree benefits as presented below. Implementation of this Standard did not affect the Company's financial position or results of operations.

The components of net pension expense in the United States are as follows:

	2000	1999	1998
Service cost	$ 9	$ 11	$ 8
Interest cost	12	11	10
Expected return on plan assets	(12)	(11)	(10)
Recognized net gain	(1)	–	–
Net pension expense	$ 8	$ 11	$ 8

The change in benefit obligation, change in plan assets, funded status and amounts recognized in the consolidated balance sheets at December 2, 2000 and November 27, 1999 for the Company's domestic defined benefit retirement plans were as follows:

	December 2, 2000	November 27, 1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$161	$161
Service cost	9	11
Interest cost	12	11
Amendments	1	–
Actuarial gain	(8)	(18)
Benefits paid	(5)	(4)
Benefit obligation at end of year	170	161
Change in plan assets:		
Fair value of plan assets at beginning of year	140	144
Actual return/(loss) on plan assets	14	(9)
Employer contributions	9	9
Benefits paid	(5)	(4)
Fair value of plan assets at end of year	158	140
Funded status	(12)	(21)
Unrecognized net actuarial gain	(16)	(8)
Unrecognized prior service cost	2	2
Accrued benefit cost	$ (26)	$ (27)

The weighted-average assumptions used in accounting for the domestic pension plans are as follows:

	2000	1999	1998
Discount rate	7.75%	7.75%	7.25%
Expected rate of return on plan assets	8.0%	8.0%	8.0%
Rate of compensation increase	5.5%	5.5%	5.5%

For all of the Company's domestic pension plans, the fair value of plan assets exceeded the accumulated benefit obligation as of December 2, 2000 and November 27, 1999.

In addition to the above plans, the Company has an unfunded liability for a defined benefit plan in Germany. The unfunded benefit obligation of this plan, included in accrued expenses, was $8 million on December 2, 2000 and $10 million on November 27, 1999. Pension expense was negligible in 2000, 1999 and 1998.

The Company also sponsors several defined contribution plans covering certain of its employees. Employer contributions are made to these plans based on a percentage of employee compensation. The cost of these defined contribution plans was $6 million in 2000, $5 million in 1999 and $6 million in 1998.

3. ACQUISITIONS

On July 30, 1999, Hill-Rom, a wholly owned subsidiary, purchased the assets of AMATECH Corporation, a manufacturer and distributor of surgical table accessories and patient positioning devices for the operating room, for approximately $28 million, including costs of acquisition and the assumption of certain liabilities totaling approximately $1 million. If the purchased entity achieves certain financial milestones by the end of January 2003, the Company could make additional payments. This acquisition has been accounted for as a purchase, and the results of operations have been included in the consolidated financial statements since the acquisition date. The excess of the purchase price over the fair value of net assets acquired, based on the Company's purchase price allocation, including payments of $3 million made in 2000 for the achievement of certain financial milestones, is approximately $26 million which is being amortized on a straight-line basis over 20 years.

On December 31, 1998, Forethought Life Insurance Company, a wholly owned subsidiary of Forethought Financial Services, Inc., acquired the stock of Arkansas National Life Insurance Company for approximately $31 million, including costs of acquisition. This acquisition has been accounted for as a purchase, and the results of operations of the acquired business have been included in the consolidated financial statements since the acquisition date. The excess of the purchase price over the fair value of net assets acquired was approximately $3 million which is being amortized on a straight-line basis over 20 years.

On June 4, 1998, Forethought Financial Services purchased Chrysler Life Insurance Company for approximately $14 million, including costs of acquisition. This acquisition has been accounted for as a purchase, and the results of operations of the acquired business have been included in the consolidated financial statements since the acquisition date. The excess of the purchase price over the fair value of net assets acquired, which were primarily state insurance licenses, was approximately $4 million which is being amortized on a straight-line basis over 40 years.

On February 9, 1998, Hill-Rom acquired the stock of MEDÆS Holdings, Inc., a manufacturer of medical architectural systems for $62 million, including costs of acquisition, and the assumption of certain liabilities totaling $16 million. This acquisition was accounted for as a purchase, and the results of operations have been included in the consolidated financial statements since the date of acquisition. The excess of the purchase price over the fair value of net assets acquired was approximately $50 million which is being amortized on a straight-line basis over 20 years.

On December 18, 1997, Hill-Rom acquired the stock of Air-Shields, Inc., a manufacturer and supplier of infant incubators and warmers, and certain other businesses of Vickers PLC for $93 million, net of cash acquired and including costs of acquisition, and the assumption of certain liabilities totaling $22 million. This acquisition has been accounted for as a purchase, and the results of the operations of the acquired business have been included in the consolidated financial statements since the date of acquisition. The excess of the purchase price over the fair value of net assets acquired was approximately $53 million which is being amortized on a straight-line basis over 20 years. In the second quarter of 1999, the final purchase price for this acquisition was negotiated, resulting in a $5 million reduction in the excess of the purchase price over the fair value of net assets acquired.

Hill-Rom, Batesville and the Company each acquired one small company during 1998 in addition to those outlined above. The combined purchase price of these companies was approximately $14 million, net of cash acquired.

Assuming the two fiscal 1999 acquisitions and all fiscal 1998 acquisitions had occurred November 30, 1997, unaudited fiscal 1998 and 1999 pro forma revenue, net income and earnings per share would not have been materially different from reported amounts.

4. DISPOSITION

On July 1, 1998, the Company sold its high security and access control business, Medeco Security Locks, Inc., to Assa Abloy AB for approximately $92 million. The Company recorded an after-tax gain of approximately $47 million in the third quarter of 1998. Results for Medeco were included in the Health Care Group through the date of disposition and did not have a material effect on the results of that group or the Company's consolidated earnings, cash flows and financial position. The gain on the sale of Medeco is classified within the Other line under Other income (expense), net in the Statement of Consolidated Income.

5. UNUSUAL CHARGES

2000 Actions

On October 11, 2000, the Company announced that W August Hillenbrand, Chief Executive Officer, would retire effective December 2, 2000. In relation to Mr. Hillenbrand's retirement, the Company incurred a charge of $8 million related to future payments and other compensation related items under the terms of the retirement agreement. This charge is reflected within the Unusual charges line of the Statement of Consolidated Income.

In November 2000, Forethought announced the realignment of certain of its operations. Forethought incurred an unusual charge of $1 million in relation to this realignment.

1999 Actions

In November 1999, the Company announced a plan to reduce the future operating cost structure at Hill-Rom, to write-down the value of certain impaired assets and to recognize a liability associated with the estimated cost of a field corrective action for a previously acquired product line. The total estimated cost of these actions necessitated an unusual charge of $29 million in the fourth quarter of 1999. The cash component of this charge was $19 million.

Included in the cost-cutting actions announced at Hill-Rom was the reduction of 350 employees in the United States and Europe and the closure of select manufacturing and sales, service/distribution facilities in the United States and Europe. Estimated costs for the work force and facility closure actions were $8 million and $3 million, respectively.

The unusual charge also included $10 million relative to asset impairments for a small Hill-Rom investment that has been liquidated and the write-off of other strategic investments which have discontinued operations.

The remaining component of the 1999 fourth quarter unusual charge related to an $8 million field corrective action taken relative to a previously acquired product line.

As of December 2, 2000, approximately $7 million in work force reduction costs, $2 million in facility closure costs and $4 million related to the field corrective action have been incurred. The Company expects substantially all employee related costs to be completed within the next three months as the payments to previously eliminated employees are completed. The facility closures are near completion and the field corrective action is expected to be completed by the end of the third quarter of 2001.

During 2000, approximately $2 million of the original 1999 provision was reversed to income within the Unusual charges line of the Statement of Consolidated Income as actual costs incurred were favorable to those originally expected.

In March 1999, Batesville Casket Company announced the planned closing of its Campbellsville, Kentucky casket manufacturing plant. Approximately 200 employees were affected and the closure necessitated a $9 million unusual charge in the second quarter of 1999. Production of Campbellsville casket units was transferred to existing plants located in Batesville, Indiana and Manchester, Tennessee. All accrued costs related to this action have been incurred. The idled facility was sold in October 2000 for a gain of $1 million which is reflected within the Unusual charges line of the Statement of Consolidated Income.

1998 Actions

In August 1998, the Company approved a plan to close all manufacturing facilities in Germany and Austria. The plan necessitated the provision of a $70 million asset impairment and restructuring charge including a non-cash charge of $53 million for the write-off of goodwill and other asset impairments. The plan also included additional charges for severance and employee benefit costs of $10 million and other estimated plant closing costs of $7 million.

Manufacturing operations were discontinued in Germany and Austria by the second quarter of 1999 and all actions required under the plan have been completed. During 2000 and 1999, approximately $1 million and $2 million of the originally recorded provisions were reversed to income within the Unusual charges line of the Statement of Consolidated Income as actual costs were less than originally estimated.

The disposition of the facility in Austria was completed in December 1999 for a gain of $2 million and the facility in Germany was sold in November 2000 for a gain of $1 million. These gains are reflected within the Unusual charges line of the Statement of Consolidated Income.

Other

In addition to costs accrued under the above outlined plans, approximately $1 million and $2 million of incremental costs were incurred in relation to those actions in 2000 and 1999, respectively. These incremental costs were expensed as incurred as required by generally accepted accounting principles and are included within the Unusual charges line of the Statement of Consolidated Income as such incremental costs were incurred directly in conjunction with the execution of the respective plans.

The reserve balances for the above plans included in other current liabilities approximated $8 million and $21 million as of December 2, 2000 and November 27, 1999, respectively. The reserve balance included in other long-term liabilities for the retirement of the Company's CEO is approximately $7 million as of December 2, 2000.

6. FINANCING AGREEMENTS

The Company's various financing agreements contain no restrictive provisions or conditions relating to dividend payments, working capital or additional indebtedness.

Long-term debt consists of the following:

	December 2, 2000	November 27, 1999
Unsecured 8 1/2% debentures due on December 1, 2011	$100	$100
Unsecured 7% debentures due on February 15, 2024	100	100
Unsecured 6 3/4% debentures due on December 15, 2027	100	100
Government-sponsored bond with an interest rate of 5.0% and maturities to 2008	1	2
Other	1	–
Total long-term debt	$302	$302

Scheduled payments on long-term debt as of December 2, 2000 total less than $1 million in each of the years 2001 through 2005.

Short-term debt in 1999 consisted of borrowings under various lines of credit maintained for foreign subsidiaries. There were no short-term borrowings outstanding at December 2, 2000. The weighted average interest rate on all short-term borrowings outstanding as of November 27, 1999 was approximately 4.0%.

At December 2, 2000, the Company had uncommitted credit lines totaling $95 million available for its operations. These agreements have no commitment fees, compensating balance requirements or fixed expiration dates.

7. STOCK-BASED COMPENSATION

At December 2, 2000, the Company has four active stock-based compensation programs; the Senior Executive Compensation Program, the Performance Compensation Plan, the 1996 Stock Option Plan and the Hillenbrand Industries Stock Award Program which are described below. These programs are administered by the Compensation Committee of the Board of Directors. All shares issued under these programs are valued at market trading prices.

The Company's Senior Executive Compensation Program, initiated in fiscal year 1978, provides long-term performance share compensation, which contemplates annual share awards to participants contingent on their continued employment and the achievement of pre-established financial objectives of the Company over succeeding three-year periods. A total of 2,500,000 shares of common stock of the

Company remains reserved for issuance under the program. Total tentative performance shares payable through December 2, 2000, were 176,264. In addition, the Senior Executive Compensation Program mandates and or provides for participants to defer payment of long-term performance shares earned in prior years. A total of 253,486 shares are deferred of which 234,490 are vested and payable as of December 2, 2000. The fair value of common stock granted under this program was $34.81, $57.94 and $44.56 per share in 2000, 1999 and 1998, respectively.

Under the Performance Compensation Plan, key employees are awarded tentative performance shares based upon achievement of performance targets. A total of 1,288,897 shares of common stock remain reserved for issuance under this plan as of December 2, 2000. No shares have been awarded under this plan since 1993. This plan will terminate on November 30, 2001.

Under the 1996 Stock Option Plan, key employees and directors are granted the opportunity to acquire the Company's common stock. Under the terms of the plan, options may be either incentive or non-qualified. Stock appreciation rights may be awarded in conjunction with either an incentive stock option or non-qualified stock option.

The exercise price per share shall be the average fair market price of the common stock on the date of the grant. Options granted to employees vest one-third on each of the first three anniversaries of the date of grant. Options granted to directors vest entirely on the first anniversary of the date of grant. All options have a maximum term of ten years. Three million shares of common stock have been reserved for issuance under this plan and options were initially granted in 1997. As of December 2, 2000 there were 1,126,995 shares of common stock available for future grants. The fair value for each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. The weighted average fair value of options granted was $12.41, $12.31 and $14.19 per share in 2000, 1999 and 1998, respectively. The following weighted average assumptions were used:

	2000	1999	1998
Risk-free interest rate	6.52%	5.23%	5.63%
Dividend yield	1.62%	1.68%	1.49%
Volatility factor	.2418	.2319	.1926
Weighted average expected life	5.81 years	5.98 years	5.98 years

The following table summarizes the transactions of the Company's stock option plan:

	2000		1999		1998	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Unexercised options outstanding – beginning of year	1,435,248	$46.85	734,998	$50.04	283,500	$44.31
Options granted	554,000	$35.99	777,750	$44.23	499,000	$52.98
Options exercised	(20,968)	$38.41	(500)	$44.31	(10,339)	$44.31
Options canceled	(127,082)	$47.62	(77,000)	$50.98	(37,163)	$47.37
Unexercised options outstanding – end of year	1,841,198	$43.62	1,435,248	$46.85	734,998	$50.04
Exercisable options – end of year	873,484	$47.41	355,566	$49.16	94,867	$44.31

The following table summarizes information about stock options outstanding at December 2, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$29.97–$33.84	293,199	8.81	$30.27	79,067	$29.97
$36.31–$36.31	496,500	9.13	$36.31	60,000	$36.31
$42.81–$46.44	243,665	6.65	$44.60	235,667	$44.58
$52.16–$52.16	753,834	7.62	$52.16	456,748	$52.16
$57.09–$63.25	54,000	7.44	$59.76	42,002	$60.26
$29.97–$63.25	1,841,198	8.08	$43.62	873,484	$47.41

On October 5, 1999, key employees were awarded 40,000 shares of the Company's common stock with a fair value of $27.75 per share under the Hillenbrand Industries Stock Award Program. The stock awards are contingent upon those employees continued employment until October 5, 2002. Dividends accrued to date of 1,160 additional shares are also contingent upon continued employment until October 5, 2002.

Under a prior restricted stock plan, key employees were granted restricted shares of the Company's stock. As of December 2, 2000 there were 6,923 shares which remain deferred under this program. No awards were made in fiscal 2000 and the plan has been terminated.

The amount of income/(expense) recognized for all stock-based compensation plans was ($4) million in 2000, $4 million in 1999 and ($8) million in 1998.

The pro forma effect on net income for all stock-based compensation plans, if accounted for under SFAS No. 123, is $6 million and $9 million additional compensation expense or $.06 and $.09 per share in 2000 and 1999, respectively, and less than $1 million additional expense in 1998.

Members of the Board of Directors may elect to defer fees earned and invest them in common stock of the Company. A total of 12,966 deferred shares are payable as of December 2, 2000 under this program.

8. SHAREHOLDERS' EQUITY

One million shares of preferred stock, without par value, have been authorized and none have been issued.

As of December 2, 2000, the Board of Directors had authorized the repurchase, from time to time, of up to 24,289,067 shares of the Company's stock. The purchased shares will be used for general corporate purposes. As of December 2, 2000, a total of 19,502,767 shares had been purchased at market trading prices, of which 17,919,611 shares remain in treasury.

9. FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments (other than Insurance investments which are described in Note 13) for which it is practicable to estimate that value.

The carrying amounts of current assets and liabilities approximate fair value because of the short maturity of those instruments.

The fair value of the Company's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The carrying value and estimated fair values of the Company's long-term debt instruments were $302 million and $292 million at December 2, 2000 and $302 million and $294 million at November 27, 1999, respectively.

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined foreign currency and equity risks. The Company occasionally enters into foreign currency forward contracts and equity options to hedge exposure to adverse exchange risk related to certain assets and obligations denominated in foreign currencies and price fluctuations related to certain equity investments. The gains or losses arising from these contracts offset gains or losses on the underlying assets or liabilities and are recognized as offsetting adjustments to the carrying amounts. The Company had no material derivative financial instruments outstanding on December 2, 2000 and November 27, 1999.

10. SEGMENT REPORTING

Effective November 27, 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires reporting of segment information that is consistent with the way in which management operates and views the Company. The adoption of SFAS No. 131 did not affect the Company's financial position or results of operations.

The Company is organized into two groups – the Health Care Group and the Funeral Services Group. The Health Care Group, which is considered a separate reporting segment, consists of Hill-Rom. Hill-Rom produces, sells and rents mechanically, electrically and hydraulically adjustable hospital beds, infant incubators and warmers, hospital procedural stretchers, hospital patient room furniture, medical gas and vacuum systems, architectural systems and wound care and trauma management products designed to meet the needs of medical-surgical, critical care, long-term care, home care and perinatal providers.

The Funeral Services Group consists of two reporting segments, Funeral Services Products (Batesville Casket Company - Batesville) and Funeral Services Insurance (Forethought Financial Services - Forethought). Batesville Casket Company manufactures and sells a variety of metal and hardwood caskets and a line of urns and caskets used in cremation. Batesville's products are sold to licensed funeral directors operating licensed funeral homes. Forethought Financial Services and its subsidiaries provide funeral planning professionals with marketing support for Forethought® funeral plans funded by life insurance policies and trust products.

Corporate manages areas that affect all segments such as taxes, interest income and expense, debt, legal, treasury, continuous improvement and business development. Nearly all interest expense, investment income and other income and expense amounts relate to activities undertaken at Corporate to benefit the Company as a whole.

In analyzing segment performance, the Company's management reviews income before income taxes, unusual items, and capital charges and segment income (income before income taxes and unusual items). The capital charge is an estimate of the cost of capital a segment would incur if not a part of Hillenbrand Industries, and the resulting segment income is used as a measure of segment profitability.

Based on criteria established in SFAS No. 131, the Company's reporting segments are Health Care, Funeral Services Products and Funeral Services Insurance. Corporate, while not a segment, is presented separately to aid in the reconciliation of segment information to that reported in the Consolidated Financial Statements.

Financial information regarding the Company's reportable segments is presented below:

	Health Care	Funeral Services Products	Funeral Services Insurance	Other *(a)*	Corporate and Other Expense	Consolidated
2000						
Net revenues	$1,112	$617	$ 367	$ –	$ –	$2,096
Income before income taxes, unusual items and capital charges	$ 123	$152	$ 33	$ –	$ (65)	$ 243
Capital charges	(45)	(18)	–	–	63	–
Segment income	$ 78	$134	$ 33	$ –	$ (2)	$ 243
Unusual items *(b)*	$ 5	$ –	$ (1)	$ –	$ (7)	(3)
Income before income taxes						$ 240
Assets	$ 758	$276	$3,257	$ –	$306	$4,597
Capital expenditures	$ 67	$ 30	$ 5	$ –	$ 4	$ 106
Depreciation and amortization	$ 69	$ 15	$ 3	$ –	$ 2	$ 89
1999						
Net revenues	$1,090	$602	$ 355	$ –	$ –	$2,047
Income before income taxes, unusual items and capital charges	$ 83	$142	$ 45	$ –	$(37)	$ 233
Capital charges	(47)	(17)	–	–	64	–
Segment income	$ 36	$125	$ 45	$ –	$ 27	$ 233
Unusual items *(c)*	$ (25)	$ (9)	$ (3)	$ –	$ (1)	(38)
Income before income taxes						$ 195
Assets	$ 794	$245	$3,028	$ –	$366	$4,433
Capital expenditures	$ 62	$ 9	$ 6	$ –	$ 2	$ 79
Depreciation and amortization *(d)*	$ 73	$ 18	$ 5	$ –	$ 2	$ 98
1998						
Net revenues	$1,124	$541	$ 309	$27	$ –	$2,001
Income before income taxes, unusual items and capital charges	$ 156	$124	$ 52	$ 3	$ (47)	$ 288
Capital charges	(43)	(17)	–	(1)	61	–
Segment income	$ 113	$107	$ 52	$ 2	$ 14	$ 288
Unusual Items *(e)(f)*	$ (70)	$ –	$ –	$75	$ –	5
Income before income taxes						$ 293
Assets	$ 801	$254	$2,833	$ –	$392	$4,280
Capital expenditures	$ 53	$ 20	$ 9	$ –	$ 6	$ 88
Depreciation and amortization *(g)*	$ 124	$ 21	$ 1	$ 1	$ 2	$ 149

(a) All Other consists of Medeco Security Locks, Inc., which was sold in July 1998.

(b) Health Care reflects $5 million in income for gains from the disposition of facilities idled as part of prior unusual charges and the reversal of accruals provided for in previous unusual charges due to actual costs being less than originally estimated. Funeral Services Insurance reflects a $1 million charge related to the realignment of certain operations. Corporate and Other Expense reflects a $7 million charge related to the retirement of the Company's former Chief Executive Officer partially offset by a gain from the disposition of a facility idled as part of a prior unusual charge.

(c) Health Care reflects a $25 million charge for work force reduction activities, facility closure costs, certain asset impairment charges and other items. Funeral Services Products reflects a $9 million charge for the closure of a manufacturing facility. Funeral Services Insurance and Corporate and Other Expense reflect certain asset impairment charges.

(d) Funeral Services Insurance reflects a $3 million write-off of goodwill related to an asset impairment.

(e) Health Care reflects a $70 million charge for the write-off of goodwill, other asset impairment charges and other closing costs related to the discontinuance of manufacturing operations at facilities in Germany and Austria.

(f) Other reflects a gain of $75 million on the sale of Medeco Security Locks, Inc.

(g) Health Care reflects a $43 million write-off of goodwill related to the discontinuance of manufacturing operations at Hill-Rom facilities in Germany.

Geographic Information

Most of the Company's operations outside the United States are in Europe and consist of the manufacturing, selling and renting of Health Care products.

Geographic data for net revenues and long-lived assets (which consist mainly of property, plant, equipment and intangibles) were as follows:

	2000	1999	1998
Net revenues to unaffiliated customers: *(a)*			
United States	$1,846	$1,816	$1,758
Foreign	250	231	243
Total revenues	$2,096	$2,047	$2,001
Long-lived assets:			
United States	$ 400	$ 391	$ 417
Foreign	53	68	83
Total long-lived assets	$ 453	$ 459	$ 500

(a) Net revenues are attributed to geographic areas based on the location of the operation making the sale.

11. INCOME TAXES

Income taxes are computed in accordance with SFAS No. 109. The significant components of income (loss) before income taxes and the consolidated income tax provision are as follows:

	2000	1999	1998
Income (loss) before income taxes:			
Domestic	$222	$201	$370
Foreign	18	(6)	(77)
Total	$240	$195	$293
Provision for income taxes:			
Current provision:			
Federal	$ 53	$ 79	$ 90
State	7	11	19
Foreign	6	3	4
Total current provision	66	93	113
Deferred provision:			
Federal	20	(20)	(4)
State	(1)	(5)	–
Foreign	1	3	–
Total deferred provision	20	(22)	(4)
Provision for income taxes	$ 86	$ 71	$109

Differences between the provision for income taxes reported for financial reporting purposes and that computed based upon the application of the statutory U.S. Federal tax rate to reported income before income taxes is as follows:

	2000		1999		1998	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal income tax *(a)*	$84	35.0	$68	35.0	$103	35.0
State income tax *(b)*	4	1.7	4	2.1	12	4.1
Foreign income tax *(c)*	–	–	8	4.2	30	10.3
Adjustment of estimated income tax accruals	–	–	9	4.6	19	6.5
Utilization of foreign net operating losses	–	–	(9)	(4.6)	(47)	(16.1)
Other, net	(2)	(0.6)	(9)	(4.6)	(8)	(2.8)
Provision for income taxes	$86	36.1	$71	36.7	$109	37.0

(a) At statutory rate.

(b) Net of Federal benefit.

(c) Federal tax rate differential.

With the 1998 discontinuance of manufacturing operations in Germany and Austria, the Company recognized tax benefits for the majority of operating losses available in such countries, approximating $47 million. During 1999, with the substantial completion of those restructuring activities and the resolution of other related matters, an additional $9 million of tax benefit was recognized.

The tax effects of temporary differences that give rise to the deferred tax balance sheet accounts are as follows:

	December 2, 2000		November 27, 1999	
	Non-insurance	Insurance	Non-insurance	Insurance
Deferred tax assets:				
Current:				
Inventories	$ 4	$ –	$ 6	$ –
Employee benefit accruals	4	–	3	–
Self insurance accruals	7	–	9	–
Litigation accruals	2	–	2	–
Other, net	35	7	48	5
Long-term:				
Employee benefit accruals	25	1	24	1
Amortization	–	1	–	1
Unrealized loss on investments	–	44	–	17
Deferred policy revenues	–	264	–	251
Foreign loss carryforwards and other tax attributes	11	–	11	–
Other, net	5	1	11	–
Total assets	93	318	114	275
Deferred tax liabilities:				
Current:				
Inventories	1	–	2	–
Other, net	3	–	3	–
Long-term:				
Depreciation	32	2	33	3
Amortization	–	–	2	–
Benefit reserves	–	17	–	14
Deferred acquisition costs	–	194	–	175
Other, net	1	5	1	4
Total liabilities	37	218	41	196
Less valuation allowance for foreign loss and other tax attributes	(11)	–	(11)	–
Net asset	$ 45	$100	$ 62	$ 79

As of December 2, 2000, the Company has available foreign loss carryforwards and other tax attributes of approximately $11 million on a tax-effected basis. The loss carryforwards are subject to varying carryforward periods.

Realization of deferred tax assets for the operating loss carryforwards and other tax attributes is dependent upon the generation of sufficient taxable income within the carryback and carryforward periods available in each of the respective foreign tax jurisdictions. There is not currently sufficient positive evidence to support financial statement recognition of the benefits available in the Company's foreign operations. Accordingly, a full valuation allowance of $11 million has been recorded relative to these available tax benefits. It is reasonably possible that sufficient positive evidence may be generated in the near term at one or more of the Company's foreign operations to allow recognition of certain of the available tax benefits.

In conjunction with a routine audit by the Internal Revenue Service (IRS) of the Company's 1990-1995 federal income tax returns, the IRS has disallowed significant portions of the deductions associated with the Company's corporate-owned life insurance (COLI) program. The Company continues to believe all tax benefits relative to this program were taken in full compliance with existing and prior year tax laws. The Company has made deposits against the IRS' assessed liability for COLI to preclude the continuing assessment of interest charges while this matter continues to be disputed.

The Company is currently undergoing a routine audit cycle by the IRS relative to the 1996 to 1998 tax years. The Company does not believe that the outcome of tax positions taken by the Company during this period, or those related to the COLI program, will have a materially adverse effect on its financial condition, results of operations or cash flows.

12. SUPPLEMENTARY INFORMATION

The following amounts were (charged) or credited to income in the year indicated:

	2000	1999	1998
Rental expense	$(20)	$(21)	$(21)
Research and development costs	$(45)	$(47)	$(46)
Investment income, net *(a)*	$ 24	$ 16	$ 19

(a) Excludes insurance operations.

The table below indicates the minimum annual rental commitments (excluding renewable periods) aggregating $54 million, for manufacturing facilities, warehouse distribution centers, service centers and sales offices, under noncancelable operating leases.

2001	$19
2002	$14
2003	$ 9
2004	$ 5
2005	$ 3
2006 and beyond	$ 4

The table below provides supplemental information to the Statements of Consolidated Cash Flows.

	2000	1999	1998
Cash paid for:			
Income taxes	$81	$106	$113
Interest	$32	$ 27	$ 24
Non-cash investing and financing activities:			
Liabilities assumed from/incurred for the acquisition of businesses	$ –	$ 1	$ 39
Treasury stock issued under stock compensation plans	$ 1	$ 2	$ 1

13. FINANCIAL SERVICES

Forethought Financial Services, through its subsidiaries, Forethought Life Insurance Company, Forethought Federal Savings Bank, Forethought Life Assurance Company, Arkansas National Life Insurance Company and The Forethought Group, Inc., serves funeral planning professionals with life insurance policies, trust products and marketing support for Forethought® funeral planning. Forethought entered the preneed trust market in 1997. This business did not materially affect the financial results of Forethought or Hillenbrand Industries in 2000 or in prior years. In November 1999, Forethought National TrustBank was merged into Forethought Federal Savings Bank, as required with the granting of the savings bank charter.

Investments are predominantly U.S. Treasuries and agencies and high-grade corporate bonds, with smaller investments in equities and foreign denominated securities. Investments are carried on the balance sheet at fair value. The Company's objective is to purchase investment securities with maturities that match the expected cash outflows of policy benefit payments. The investment portfolio is constantly monitored to ensure assets match the expected payment of the liabilities. Securities are also sold in other carefully constrained circumstances such as concern about the credit quality of the issuer. Cash (unrestricted as to use) is held for future investment.

The amortized cost and fair value of investment securities available for sale at December 2, 2000 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies, Canada and other countries	$ 584	$ 7	$ 13	$ 578
Corporate securities and short term investments	1,723	8	127	1,604
Mutual funds and short term equities	85	–	4	81
Preferred and common stocks	50	11	4	57
Total *(a)*	$2,442	$26	$148	$2,320

The amortized cost and fair value of investment securities available for sale at November 27, 1999 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies, Canada and other countries	$ 846	$ 5	$ 41	$ 810
Corporate securities and short term investments	1,329	2	24	1,307
Mutual funds and short term equities	24	9	–	33
Preferred and common stocks	20	5	1	24
Total *(a)*	$2,219	$21	$ 66	$2,174

(a) Does not include the amortized cost of other investments carried on the balance sheet in the amount of $145 million at December 2, 2000 and $137 million at November 27, 1999. The carrying value of which approximates fair value.

The amortized cost and fair value of investment securities available for sale at December 2, 2000, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 109	$ 108
Due after 1 year through 5 years	254	247
Due after 5 years through 10 years	465	425
Due after 10 years	902	825
Mortgage-backed securities	577	577
Mutual funds and short term equities	85	81
Preferred and common stocks	50	57
Total	$2,442	$2,320

The cost used to compute realized gains and losses is determined by specific identification. Proceeds and realized gains and losses from the sale of investment securities available for sale were as follows:

	2000	1999	1998
Proceeds	$428	$487	$364
Realized gross gains	$ 13	$ 26	$ 24
Realized gross losses	$ 14	$ 3	$ 4

Summarized financial information of insurance operations included in the Statement of Consolidated Income is as follows:

	2000	1999	1998
Investment income	$176	$156	$138
Earned premium revenue	192	176	151
Net (loss) gain on sale of investments	(1)	23	20
Total net revenues	367	355	309
Benefits paid	87	81	71
Credited interest	153	145	123
Other costs of revenue	60	47	39
Unusual charges	1	3	–
Other operating expenses	33	37	23
Income before income taxes	$ 33	$ 42	$ 53

Insurance liabilities consisted of the following:

	Withdrawal Assumptions	Mortality or Morbidity Assumptions	Interest Rate Assumptions	2000	1999
Life Insurance Contracts	Varies by age/plan/duration SP: up to 0.2% MP: up to 60%; avg. 5%-10% in duration 1	Varies by age/plan/duration 1979-81 US Census Mortality Table Equals ultimate; Select = % of 1979-81 table	Varies by age and issue year 3% to 5.5%	$2,231	$2,051
Annuity Contracts	Varies by age/plan/duration SP: up to 0.2% MP: up to 60%; avg. 5%-10% in duration 1	Varies by age/plan/duration 1979-81 US Census Mortality Table Equals ultimate; Select = % of 1979-81 table	Varies by age and issue year 4% to 8.75%	45	41
Total Benefit Liabilities				$2,276	$2,092

Statutory data at December 31 includes:

	2000 (unaudited)	1999	1998
Net income	$33	$38	$35
Capital and surplus	$276	$234	$153

Forethought Life Insurance Company (FLIC), Forethought Life Assurance Company (FLAC), and Arkansas National Life Insurance Company (ANLIC) are restricted in the amount of dividends that they can distribute to their shareholders without approval of the department of insurance in their respective states of domicile. On January 2, 2001 Forethought Life Insurance Company paid a dividend of $24 million to Hillenbrand Industries, Inc. The remaining amount of dividends that can be paid in fiscal year 2001 without approval is $1 million for FLIC and FLAC, respectively, and $2 million for ANLIC.

In 1998, the National Association of Insurance Commissioners (NAIC) adopted Codification of Statutory Accounting Principles guidance, which replaces the current Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting as of January 1, 2001. The Codification provides guidance for areas where statutory accounting has been silent and changes current statutory accounting in some areas; e.g. deferred income taxes are recorded.

The State of Indiana has adopted the Codification guidance, effective January 1, 2001. The effect of adoption on the Company's statutory surplus is not expected to have a material effect on surplus.

Notes to Consolidated Financial Statements (cont.)

Hillenbrand Industries, Inc. and Subsidiaries

14. UNAUDITED QUARTERLY FINANCIAL INFORMATION

2000 Quarter Ended	2/26/00	5/27/00	8/26/00	12/02/00	Total Year (53 weeks)
Net revenues	$514	$503	$492	$587	$2,096
Gross profit	195	193	192	246	826
Net income	36	36	34	48	154
Basic and diluted net income per common share	.58	.56	.54	.76	2.44

1999 Quarter Ended	2/27/99	5/29/99	8/28/99	11/27/99	Total Year
Net revenues	$516	$524	$481	$526	$2,047
Gross profit	204	204	175	193	776
Net income	45	35	23	21	124
Basic and diluted net income per common share	.67	.53	.35	.32	1.87

15. CONTINGENCIES

On August 16, 1995, Kinetic Concepts, Inc. (KCI), and Medical Retro Design, Inc. (collectively, the "plaintiffs"), filed suit against Hillenbrand Industries, Inc., and its subsidiary Hill-Rom Company, Inc., in the United States District Court for the Western District of Texas, San Antonio Division. The plaintiffs allege violation of various antitrust laws, including illegal bundling of products, predatory pricing, refusal to deal and attempting to monopolize the hospital bed industry. They seek monetary damages totaling in excess of $269 million, trebling of any damages that may be allowed by the court, and injunctions to prevent further alleged unlawful activities. The Company believes that the claims are without merit and is aggressively defending itself against all allegations. Accordingly, it has not recorded any loss provision relative to damages sought by the plaintiffs.

On November 20, 1996, the Company filed a Counterclaim to the above action against KCI in the U.S. District Court in San Antonio, Texas. The Counterclaim alleges, among other things, that KCI has attempted to monopolize the therapeutic bed market, interfere with the Company's and Hill-Rom's business relationships by conducting a campaign of anticompetitive conduct, and abused the legal process for its own advantage.

The original claims by the plaintiffs against Hillenbrand Industries and the counterclaims by the Company against KCI are currently scheduled to go to trial in late 2001.

The Company is subject to various other claims and contingencies arising out of the normal course of business, including those relating to commercial transactions, product liability, employee related matters, safety, health, taxes, environmental and other matters. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. It is reasonably possible that some litigation matters for which reserves have not been established could be decided unfavorably to the Company. Management believes, however, that the ultimate liability, if any, in excess of amounts already provided or covered by insurance, is not likely to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company has voluntarily entered into remediation agreements with environmental authorities, and has been issued Notices of Violation alleging violations of certain permit conditions. Accordingly, the Company is in the process of implementing plans of abatement in compliance with agreements and regulations. The Company has also been notified as a potentially responsible party in investigations of certain offsite disposal facilities. The cost of all plans of abatement and waste-site cleanups in which the Company is currently involved is not expected to exceed $5 million. The Company has provided adequate reserves in its financial statements for these matters. These reserves have been determined without consideration of possible loss recoveries from third parties. Changes in environmental law might affect the Company's future operations, capital expenditures and earnings. The cost of complying with these provisions, if any, is not known.

16. SUBSEQUENT EVENT

On January 22, 2001, Hill-Rom announced that it would realign its home care and long-term care businesses. As a result, the Company expects to take a charge of between $9 million and $12 million in the first quarter of 2001.

Report of Management

Hillenbrand Industries, Inc. and Subsidiaries

Management of Hillenbrand Industries is responsible for the preparation, fairness and integrity of the Company's financial statements and other information included in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a materially consistent basis. Where necessary, management has made informed judgments and estimates as to the outcome of events and transactions, with due consideration given to materiality.

Management believes that the Company's policies, procedures and internal control systems provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with its authorization. The Company also maintains a program of internal auditing to examine and evaluate the adequacy and effectiveness of these policies, procedures and internal controls.

The Company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears below, states their opinion on the fairness of the Company's financial statements.

The Audit Committee of the Board of Directors meets regularly with the independent accountants, the internal auditors and financial management to assure that each is meeting its responsibilities.

Frederick W. Rockwood
President and Chief Executive Officer

James D. Van De Velde
Vice President and Controller

Report of Independent Accountants

To the Shareholders and
Board of Directors of
Hillenbrand Industries, Inc.

In our opinion, the accompanying consolidated balance sheets and the related statements of consolidated income, consolidated shareholders' equity and consolidated cash flows present fairly, in all material respects, the financial position of Hillenbrand Industries, Inc. and its subsidiaries at December 2, 2000 and November 27, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 2, 2000 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Indianapolis, Indiana
January 12, 2001, except as to Note 16,
which is as of January 22, 2001

Management In Depth

Hillenbrand Industries, Inc. and Subsidiaries

Officers

Frederick W. Rockwood, 53
Named President and Chief Executive Officer in 2000. Formerly president since 1999. Previously president and chief executive officer, the Hillenbrand Funeral Services Group since 1997 and Forethought Financial Services, Inc. since 1985. Has been with Hillenbrand since 1977. Previously with Bain and Company and The Boston Consulting Group.

Michael L. Buettner, 43
Vice President, Corporate Development since 1995. Formerly with Bausch & Lomb as staff vice president, corporate development and other various management positions.

Geoff W. Packwood, 60
Vice President, Chief Information Officer since 1999. Formerly vice president, chief information officer with the Hillenbrand Funeral Services Group since 1998. Previously a consultant with The Thomas Group.

David L. Robertson, 55
Named Vice President, Executive Leadership Development in 2000. Formerly vice president, administration and vice president, human resources since 1998. Previously with Rubbermaid, Inc.

Christopher R. Ruberg, 42
Vice President, Strategic Planning since 2000. Formerly vice president, strategic planning for Hill-Rom since 1999; vice president, strategy and development for the Hillenbrand Funeral Services Group since 1997 and vice president, strategy for Forethought Financial Services since 1995.

George E. Brinkmoeller, 65
Vice President, Corporate Services since 1980. Previously director of corporate services and manager of affiliated operations. Formerly manager of Sheraton Hotel Corporation.

Mark R. Lanning, 46
Vice President and Treasurer since 1995. Formerly assistant treasurer. Joined Hillenbrand in 1988 as manager, corporate audit. Prior experience with Ernst & Whinney, now Ernst & Young, LLP, as senior manager.

Mark R. Lindenmeyer, J.D., M.D., 54
Vice President, General Counsel and Secretary since 1991. Joined Hillenbrand in 1986 as litigation and medical/legal specialist. Formerly in the University of Rochester medical internship and residency program. Before that, a partner with Greeman, Kellerman & Lindenmeyer and a U.S. Army judge advocate officer.

James D. Van De Velde, 54
Vice President, Controller since 1991. Joined Hillenbrand in 1980 as tax director. Formerly tax manager with Price Waterhouse, now PricewaterhouseCoopers, LLP.

Thomas P. Waters, 41
Vice President, Continuous Improvement since 1999. Formerly director, continuous improvement since 1998 and consultant, continuous improvement since 1997. Previously senior advisor, manufacturing systems group at General Motors and 10 years with Toyota Motor Corporation in Japan.

Operating Company Presidents

Richard N. Coffin, 54
President and Chief Executive Officer, Forethought Financial Services, Inc. since 1999. Formerly executive vice president and chief operating officer. Before that, vice president, finance and chief financial officer. Has been with Hillenbrand since 1979.

David J. Hirt, 54
President and Chief Executive Officer, Batesville Casket Company, Inc. since 1989. Formerly senior vice president of sales and marketing. Has been with Hillenbrand since 1968.

R. Ernest Waaser, 44
Named President and Chief Executive Officer, Hill-Rom Company, Inc. in January 2001. Previously senior vice president and president of AGFA Corporation's Medical Imaging Division. Previously executive vice president and chief operating officer of Sterling Diagnostic Imaging and R&D director of E.I. DuPont De Nemours & Company.

Board of Directors

Ray J. Hillenbrand, 66
Chairman of the Board
Hillenbrand Industries
Batesville, IN
Board Member Since 1970
1, 2, 3, 4, 5

Daniel A. Hillenbrand, 77
Chairman Emeritus
Hillenbrand Industries
Batesville, IN
Board Member Since 1969
1, 2

Lawrence R. Burtschy, 64
Chairman
L.R. Burtschy & Co.
Charleston, SC
Board Member Since 1970
1, 2

Peter F. Coffaro, 72
Chairman of the Board
PABCO Fluid Power Co.,
Ohio Valley Flooring,
Anchor Flange Company
Cincinnati, OH
Board Member Since 1987
3, 4, 5

Edward S. Davis, Esq., 69
Partner
Hughes Hubbard & Reed
Attorneys-at-Law
New York, NY
Board Member Since 1974
3, 4, 5

Leonard Granoff, 74
President
Granoff Associates
Providence, RI
Board Member Since 1978

John C. Hancock, 71
Consultant
Fort Myers, FL
Board Member Since 1980
4, 5

George M. Hillenbrand II, 61
Personal Investments
Batesville, IN
Board Member Since 1986
1, 2

John A. Hillenbrand II, 69
Personal Investments
Batesville, IN
Board Member Since 1972
1, 2

W August Hillenbrand, 60
Personal Investments
Batesville, IN
Board Member Since 1972
1, 2, 4

Frederick W. Rockwood, 53
President & Chief Executive Officer
Hillenbrand Industries
Batesville, IN
Board Member Since 1999
1

1. Executive Committee
2. Finance Committee
3. Audit Committee
4. Compensation Committee
5. Performance Compensation Committee

Shareholder Information

Stock Exchange
Hillenbrand Industries common stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol "HB." The newspaper stock table listings are "Hillenbrnd," "Hillenbd" or "Hilenbd."

Dividends
Hillenbrand Industries has paid cash dividends on its common stock every quarter since the first public offering in 1971, and those dividends have increased each year since 1972. Dividends are paid near the end of February, May, August and November to shareholders of record near the end of January, April, July and October.

Direct Stock Information
This program enables current shareholders to transfer their Hillenbrand stock certificates into electronic accounts in their own names (similar to mutual funds) on the books of the transfer agent, Computershare Investor Services. In contrast with physical certificates (which can be misplaced or stolen), these uncertificated accounts provide a cost-free safekeeping facility, as well as a convenient way to make gifts or other transfers of stock – with or without the issuance of certificates. In addition, non-shareholders may make initial investments in Hillenbrand stock through the program.
The program also includes other options, such as reinvesting dividends and purchasing and selling stock. For more information about the plan and to obtain a program brochure and enrollment form, call toll free (888) 665-9611 or (800) 286-9178.

Transfer Agent, Registrar and Dividend Disbursing Agent
Inquiries and transactions related to the transfer and registration of stock certificates or cash dividends should be directed to:

Computershare Investor Services
2 North LaSalle Street
Chicago, Illinois 60602
(312) 588-4991
(800) 716-3607

Annual Meeting
The annual shareholders' meeting of Hillenbrand Industries, Inc. will be held on Tuesday, April 10, 2001, at 10:00 a.m. EST, at:

The Sherman House
35 South Main Street
Batesville, Indiana 47006-0067
(812) 934-7264

Corporate Sites on the World Wide Web
www.hillenbrand.com
www.batesville.com
www.forethought.com
www.hill-rom.com

Corporate Contacts

Investor Relations
Requests for the Hillenbrand Industries Annual Report on Form 10-K or other information on the Company should be directed in writing to:

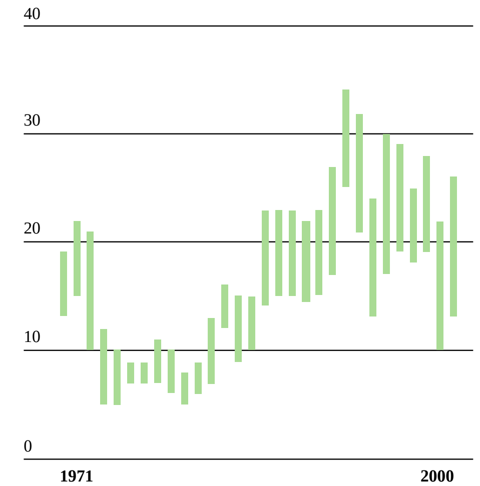
Mark R. Lanning
Vice President and Treasurer
Hillenbrand Industries, Inc.
700 State Route 46 East
Batesville, Indiana 47006-8835
(812) 934-8400
mark.lanning@hillenbrand.com

Corporate Communications
General questions and comments about Hillenbrand Industries and its operations should be directed to:

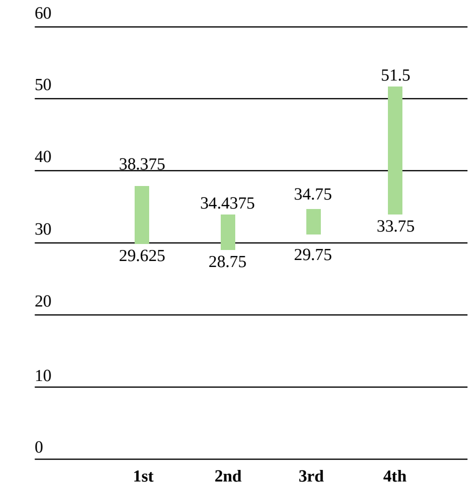
Christopher P. Feeney
Director, Public Affairs & Corporate Communications
Hillenbrand Industries, Inc.
700 State Route 46 East
Batesville, Indiana 47006-8835
(812) 934-8197
christopher.feeney@hillenbrand.com

Stock Charts

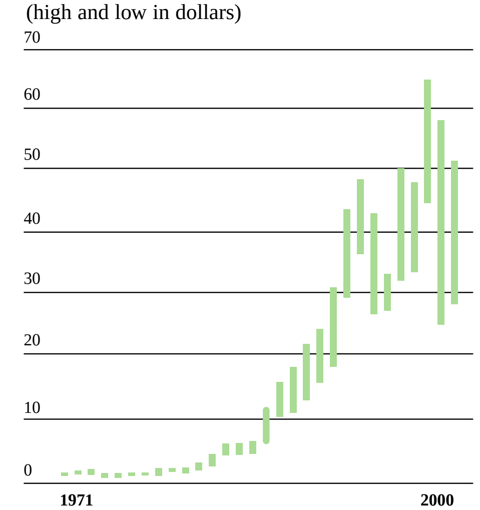
Price/Earnings Ratio
(high and low)



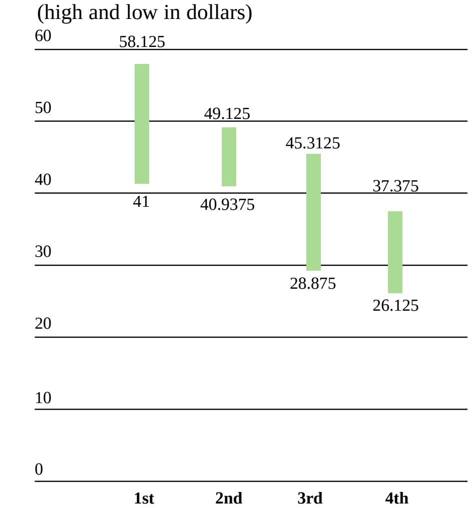
2000 Quarterly Stock Performance
(high and low in dollars)



Stock Price Range
(high and low in dollars)



1999 Quarterly Stock Performance
(high and low in dollars)



Disclosure Regarding Forward-Looking Statements
Certain statements in this Annual Report contain forward-looking statements within the meanings of the *Private Securities Litigation Reform Act of 1995* (the "Act") or by the Securities and Exchange Commission in its rules, regulations and releases regarding the Company's future plans, objectives and expected performance. The Company desires to take advantage of the "safe harbor" provisions in the Act for forward-looking statements made from time to time, including, but not limited to, the forward-looking statements relating to the future performance of the Company contained in Management's Discussion and Analysis and the Notes to Consolidated Financial Statements and other statements made in this Annual Report. Specifically, statements in this report that are not historical facts, including statements accompanied by words such as "the Company believes," "may continue," "could continue," "is expected," or "expects," are intended to identify forward-looking statements and convey the uncertainty of future events or outcomes, but their absence does not mean that the statement is not forward-looking.

The Company cautions readers that any such forward-looking statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks, and there is no assurance that actual results may not differ materially. Important factors that could cause actual results to differ include but are not limited to: outlook for health care customers, demand for products, actual and anticipated death rates, differences in anticipated and actual product introduction dates, the ultimate success of those products in the marketplace, changes in Medicare reimbursement trends, the success of cost control and restructuring efforts and the integration of acquisitions, among other things. Realization of the Company's objectives and expected performance can also be adversely affected by the outcome of pending litigation and rulings by the Internal Revenue Service on certain tax positions taken by the Company.

00% Total Recycled Fiber
00% Post-Consumer Fiber

Design: Black & White Design, Louisville, Kentucky
Executive Portraits and Concept Photography: Dawghaus Photography, Westport, Kentucky