

Hillenbrand Industries
700 State Route 46 East
Batesville, Indiana, USA 47006-8835
Phone (812) 934-7000
Investor Relations (812) 934-8400
www.hillenbrand.com
www.hill-rom.com
www.batesville.com
www.forethought.com

Hillenbrand Industries 1999 Annual Report

**Life's
Transitions
Create
Opportunities**



Our Purpose – Hillenbrand Industries is dedicated to the creation of value for our customers, wealth for our shareholders and great opportunities for our associates who deliver exceptional results.

Together we will build highly profitable companies that are niche market leaders serving the health and death needs of individuals.

We will do this through highly focused business units that deliver exceptional value to our customers with highly differentiated products and services. These products and services provide value to our customers which is clearly superior to that offered by our competitors.

Hillenbrand Industries' Five Guiding Principles

1. Niche Market Leadership
2. Total Customer Satisfaction
3. Continuous Improvement
4. Individual Worth
5. Management for Cash Flow

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Transitions.

Passages from one state, stage, subject or place to others.

Transitions are our business at Hillenbrand Industries.

Everyday, **people rely on our products** to help them with life's most challenging and important transitions...matters of a healthy life and a meaningful funeral experience. The needs of the **health care** and **funeral industry** professionals we serve are also transitioning.

We believe these transitions create **great opportunities** to bring comfort and assistance to people when they need it most, while also growing shareholder value.

Corporate Overview

Hillenbrand Industries, Inc.
700 State Route 46 East
Batesville, Indiana 47006-8835
Investor Relations: (812) 934-8400
www.hillenbrand.com
W August Hillenbrand, Chief Executive Officer
Frederick W. Rockwood, President

Operating Company

Health Care

Hill-Rom®
A HILLENBRAND INDUSTRY

Hill-Rom Company
1069 State Route 46 East
Batesville, Indiana 47006-9167
www.hill-rom.com
Robert J. Tennison,
President and CEO



TotalCare® bed



DuraStar™ stretcher

Funeral Services



Batesville Casket Company
One Batesville Boulevard
Batesville, Indiana 47006-7798
www.batesville.com
David J. Hirt,
President and CEO



Golden Sand™ casket



MemorySafe® drawer



MemoryFrame™ panel

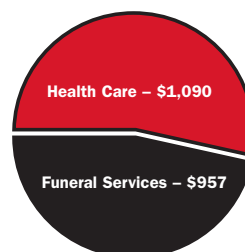
**FORE
THOUGHT®**
A HILLENBRAND INDUSTRY

Forethought Financial Services, Inc.
Forethought Center
Batesville, Indiana 47006-4826
www.forethought.com
Richard N. Coffin,
President and CEO

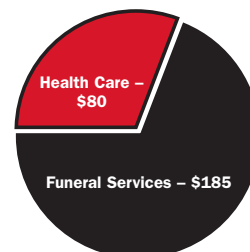
Timeless TOTAL
Casket Protection®

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

**1999
Net Revenues**
(millions of dollars)
\$2,047



**1999
Operating Profits***
(millions of dollars)
\$265



Products & Services

Customers & 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.



COMLite™ system

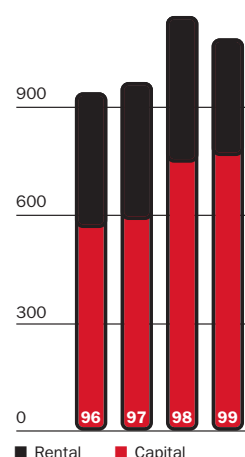


**BEACH Chair
shoulder system**

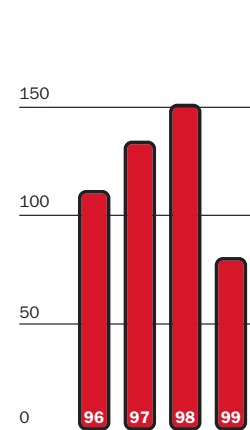


CarePorter™ cart

**Health Care
Group Revenues**
(millions of dollars)
1,200



**Health Care Group
Operating Profits***
(millions of dollars)
200



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.

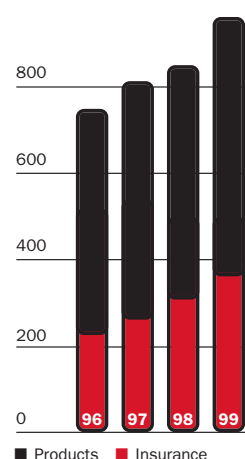


Alexis Poplar™ casket

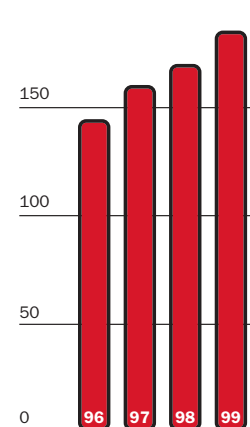


Floral Reflections™ scattering urn

**Funeral Services
Group Revenues**
(millions of dollars)
1,000



**Funeral Services
Group
Operating Profits***
(millions of dollars)
200



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.

**All years presented in the above pie charts and graphs exclude unusual items.*

Financial Highlights

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions except per share data)	Fiscal Year			Percent Change	
	1999	1998	1997	1999/98	1998/97
Net revenues:					
Health Care	\$1,090	\$1,151	\$ 966	(5%)	19%
Funeral Services	957	850	810	13%	5%
Total net revenues	2,047	2,001	1,776	2%	13%
Group operating profit:					
Health Care (a) (d)	55	81	134	(32%)	(40%)
Funeral Services (b)	173	170	160	2%	6%
Total group operating profit	228	251	294	(9%)	(15%)
Other items (c) (e)	(33)	42	(35)	(179%)	(220%)
Income taxes (d)	71	109	102	(35%)	7%
Net income	\$ 124	\$ 184	\$ 157	(33%)	17%
Net income per common share	\$ 1.87	\$ 2.73	\$ 2.28	(32%)	20%
Dividends per common share	\$.78	\$.72	\$.66	8%	9%
Return on average equity	13.4%	20.6%	19.6%	N/A	N/A
Average shares outstanding (000's)	66,296	67,578	68,796	(2%)	(2%)
Shareholders	22,900	24,500	24,000	(7%)	2%
Employees	10,800	10,400	9,800	4%	6%

See Notes to Consolidated Financial Statements

(a) Results in 1999 reflect a \$25 million charge due to work force reduction activities, facility closure costs, certain asset impairment charges, and other items.

(b) Results in 1999 reflect a \$12 million charge due to the closure of a manufacturing plant and an asset impairment.

(c) Results in 1999 reflect a \$1 million asset impairment charge.

(d) Results in 1998 reflect a \$42 million, net of tax, charge due to 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.

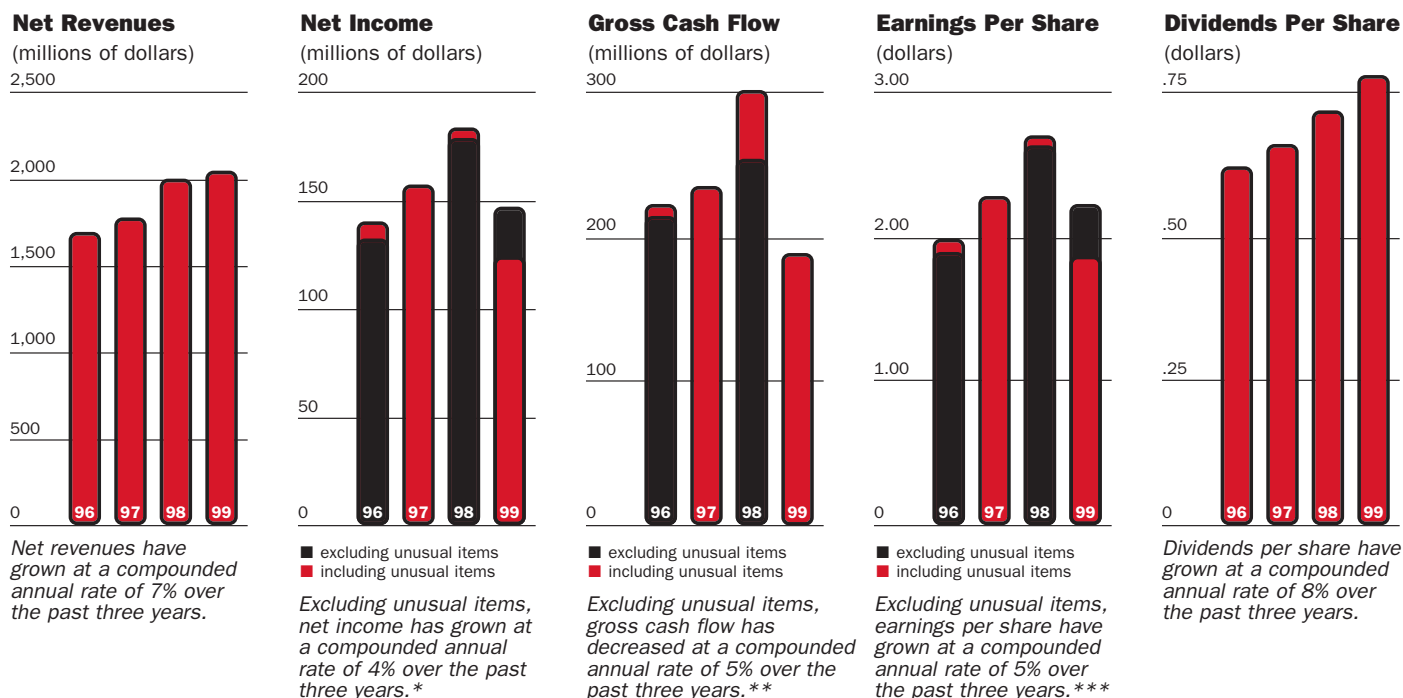
(e) Results in 1998 reflect a gain of \$75 million (\$47 million after tax) related to the sale of Medeco Security Locks, Inc.

1999 was a year of record growth in several areas.

Disclosure Regarding Forward-Looking Statements

From time to time, the Company makes oral and written statements that may constitute "forward-looking statements" as defined in the *Private Securities Litigation Reform Act of 1995* (the "Act") or by the SEC in its rules, regulations and releases. 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," or "is expected," are intended to identify forward-looking statements and convey the uncertainty of future events or outcomes.

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: 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.



*The year 1999 includes a \$24 million charge for work force reduction activities, facility closure costs, certain asset impairment charges and other items. The year 1998 includes income of \$47 million relative to the sale of Medeco Security Locks, Inc., offset by unusual charges totaling \$42 million relating to the write-off of goodwill, other asset impairment charges and other closing costs related to the discontinuance of certain Hill-Rom manufacturing operations in Europe. The year 1996 includes gains and tax benefits totaling \$8 million on the sale of Block Medical, Inc.

**Hillenbrand Industries has generated nearly \$1.0 billion in gross cash over the past four years. The year 1998 includes a gain totaling \$47 million, net of tax, on the sale of Medeco Security Locks, Inc. The year 1996 includes gains and tax benefits totaling \$8 million on the sale of Block Medical, Inc.

***The year 1999 includes expenses of \$.36 per share related to work force reduction activities, facility closure costs, certain asset impairment charges and other items. The year 1998 includes income of \$.70 per share relative to the sale of Medeco Security Locks, Inc., offset by unusual charges totaling \$.62 per share, net of a tax benefit, relating to the write-off of goodwill, other asset impairment charges and other closing costs related to the discontinuance of certain Hill-Rom manufacturing operations in Europe. The year 1996 includes gains and tax benefits totaling \$.12 per share on the sale of Block Medical, Inc.

Financially, we are a very strong and stable company. Our balance sheet is solid with good cash flow to fuel future growth and expansion.

To Our Shareholders, Customers and Associates:

In 1999 your company recorded many achievements despite the very challenging business environment we faced in our health care segment. We remain financially strong and the leader of the markets we serve. For 2000, we are well positioned to capitalize on growth opportunities emerging in the ever-transitioning health care and death care industries.

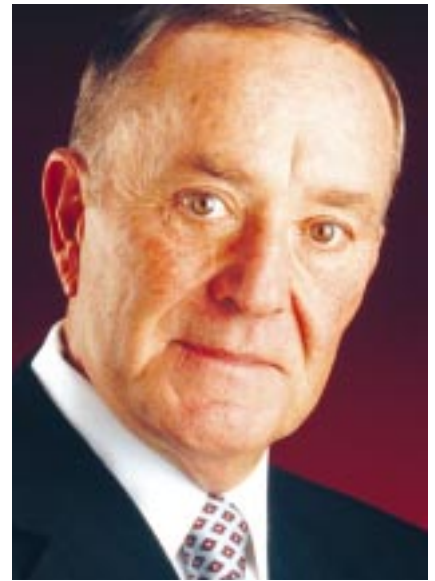
Achievements of 1999.

- Consolidated net revenues increased 2% to a record \$2.05 billion. We have achieved record revenues each of the 28 years since becoming a publicly traded company in 1971;
- Our Funeral Services Group recorded record sales up 13% and operating profit up 2%, or 9% excluding unusual charges;
- Batesville Casket unit sales were up a record 19%;
- Hill-Rom capital product sales were a record \$766 million, up 6%, despite severe Medicare reimbursement cuts;
- Hill-Rom Europe was profitable in the fourth quarter;
- Hill-Rom's innovative TotalCare® bed continued to enjoy strong sales;
- We acquired AMATECH Corporation to broaden our presence in the global operating room products market;
- Forethought Financial Services completed initial exploration of growth opportunities outside North America for our preplanned funeral insurance and trust products; and
- Forethought increased its sales of prearranged funeral products through independently owned funeral homes in 1999 by 15% over 1998.

Challenges of 1999. The greatest challenge your company faced in 1999 was the impact of reduced U.S. Medicare reimbursement payments on Hill-Rom's acute care and long-term care customers. Medicare is the nation's largest health insurance program and covers 37 million Americans, primarily people age 65 and over and people with disabilities. The Medicare cuts were mandated by the Balanced Budget Act of 1997 (BBA) and are being phased in over several years.

A research arm of Congress, the Congressional Budget Office (CBO), originally estimated the BBA would extract about \$105 billion from the Medicare program. They underestimated and later released an updated study showing the BBA's real impact will be closer to a \$205 billion cut in Medicare support. Nearly double what Congress intended.

The Medicare reimbursement cuts required us to decrease pricing and caused our long-term care customers to rent fewer products. Because of lower than expected revenues and operating profits in our Health Care Group,



Top: Dan Hillenbrand, Chairman of the Board
Middle: Gus Hillenbrand, Chief Executive Officer
Bottom: Fred Rockwood, President

we did not achieve our overall income performance goals in 1999. Net income was \$124 million in 1999, down 33% from the prior year. Excluding unusual items, net income was \$148 million, down 17% from the prior year.

While the effect of the BBA will be with our customers for awhile, it also creates opportunities for us. More than ever before, our customers need products that will help them more efficiently provide quality health care to an aging, more acutely ill population. We are responding to these opportunities and, going forward, expect to be an even more important partner to health care providers than we are today.

Company solid. Your company remains financially solid. We continued to generate cash and used it to purchase \$113 million of our own stock this past year. We believe we made a very good investment. We have managed through similar cycles in the health care industry before and emerged each time a stronger company. How? We align our costs with the current market conditions. Most importantly, we continue to invest in developing new, differentiated products that our customers need. As a result, when the industry bounces back, we are ready with new products that help us retain and gain market share and drive growth.

Anticipating Change. While we manage for long-term results, we also realize the need to address a sub-par financial year with a sense of urgency. To date, we have taken the following actions in our health care business:

- began aligning our cost structure with current market conditions;
- made the difficult decision to implement work force reductions. By the end of the year 2000, more than 350 positions will have been eliminated to align costs with market conditions. Our associates are hard-working, good people, and this was not an easy decision. We are currently helping them transition to new employment;
- enhanced our government affairs staffing and resources to better monitor and anticipate legislative or regulatory changes in the markets we serve;
- invested in the research and development needed to introduce more new products that assist health care providers with their task of providing high-quality health care in challenging economic conditions; and
- focused daily continuous improvement efforts to find new efficiencies and eliminate non-value-added activities and processes.

Health Care Group Results. Our Health Care Group, comprised of the Hill-Rom Company, had revenues of \$1,090 million, down 5% from 1998. Operating profit declined 32% to \$55 million, or 46% to \$80 million excluding unusual charges. The health care segment of our business accounted for 53% of consolidated net revenues. While revenues in our European operations were flat compared to 1998, we are pleased to report they were profitable in the fourth quarter. We believe this business will be profitable going forward, signaling the success of our realignment efforts in our European operations.

Transitions create exciting opportunities for growth. Your company is well positioned to take advantage of those new growth opportunities in the health care and death care industries.

Health Care Trends. During 2000, our health care customers will continue to seek solutions to cope with reduced Medicare reimbursements that are shrinking their profit margins. However, we believe the impact of the BBA and other known health care legislation will only slow our short-term growth before we get back to our historical growth trends. Congress is aware of the BBA's detrimental impact on the U.S. health care system and has already passed legislation to provide some relief to Medicare providers. We look for additional congressional relief as Americans demand better health care services.

The world's population will continue to shift toward the older age groups. As a result, patients will be older, sicker and stay longer in higher care settings. The average age of caregivers is also rising while the task of providing care is becoming more complex. These demographic shifts favor our health care business.

Information technology is also impacting health care. Internet savvy consumers have access to better information to guide their decisions. E-commerce is widening health care providers' and suppliers' choices. We are actively developing our own strategies to prepare our products, services and processes for e-commerce.

Funeral Services Group Results. Our Funeral Services Group, consisting of Batesville Casket Company and Forethought Financial Services, achieved record revenues of \$957 million, 13% over 1998. Operating profit grew 2% to \$173 million, or 9% over 1998 to \$185 million excluding unusual charges. The Funeral Services Group accounted for 47% of Hillenbrand Industries' 1999 consolidated net revenues.

Batesville Casket increased unit sales and continued to gain market share. The Options cremation division of Batesville Casket Company continued to deliver exceptional growth for the sixth consecutive year. Forethought Financial Services increased revenues by growing the number of preneed insurance policies in-force and by realizing increased investment income on insurance reserves and trust product sales.

Death Care Trends. The funeral home acquisition and consolidation rate has slowed significantly as national providers, facing a flat death rate, focus more on improving operations and profitability. More consumers are selecting cremation, seeking more value from funeral products and personalizing their funeral experiences. Meanwhile, the industry is increasing its emphasis on the sale of insurance and trust products for prearranged funeral services. The aging population will also drive growth in this industry.

We are poised to continue our growth in the death care industry. Our focus is on remaining the low-cost provider of a range of highly personalized funeral products and services to serve the heart of our business, the independent funeral home. By meeting changing consumer needs for personalized burial, cremation and financial services products, we will maintain our leadership position in this industry and find additional growth opportunities.

Corporate Highlights. We were pleased to announce in December that as part of our emphasis on long-term growth and management succession, Fred Rockwood was named president of Hillenbrand Industries. He has also joined the corporation's board of directors. As president of the corporation, Fred will be responsible for providing corporate-level leadership to our three operating companies. He is a proven leader and has been instrumental in the growth of Hillenbrand Industries since he joined us 22 years ago.

Fred's past contributions to our strategic planning process, the creation of our Forethought insurance and trust business and the establishment of our Funeral Services Group, have been significant drivers of our past growth. With Fred's experience and leadership directed at continuing the success of our operating companies, our corporate management team will increase the proportion of time it spends on strategy and long-term growth activities.

Our four key strategies for creating long-term growth are: **1)** to introduce innovative, new and differentiated products developed with direct input from our customers; **2)** to acquire or create new business opportunities, including e-commerce, that complement our existing leadership positions in the niche markets we serve; **3)** to significantly improve our businesses with the Hillenbrand Business System of continuous improvement, and **4)** to attract, develop and retain the leadership talent needed to drive our growth initiatives. These strategies, combined with our sound financial base centered on strong cash flow, an increasing demand for our products from an aging population and the dedicated people working at Hillenbrand Industries, will drive the growth of your investment.

While 1999 was a challenging year, our vision for growing shareholder value extends beyond one year. We manage our businesses like most of our shareholders manage their investments, for long-term growth. Cultural, political and economic trends will continue to slowly reshape the funeral services and health care markets we serve over the next year. Rather than be blind to change, we will expect it. We will embrace it. Transitions create exciting opportunities for growth. Your company is well positioned to take advantage of those new growth opportunities in the health care and death care industries.



Daniel A. Hillenbrand
Chairman of the Board



W August Hillenbrand
Chief Executive Officer



Frederick W. Rockwood
President



Improving Our Businesses

For a decade now, a principle of Hillenbrand Industries has been demonstrated through our corporate-wide commitment to **continuous improvement**.

Everyday, associates from the shop floor to the front office are encouraged to share ideas that **improve** safety, customer service, product quality, and efficiency, while eliminating non-value-added activities and processes.

We're improving our businesses daily.

Associates, top from left, Jeff Goodpaster and Audrey Rater;
bottom from left, George Doll and Roger Houston

Our commitment to continuous improvement reached a milestone in 1999 when we launched our new Hillenbrand Business System.

The Hillenbrand Business System (HBS) is the next significant step in our ongoing effort to cultivate a corporate-wide culture of continuous improvement. Our philosophy is simple. We believe that everything we do can be improved. Everyday, we look for ways to run our businesses more safely, faster, with higher quality, and at a lower cost. Measures are established to track results.

Over the last decade, we have learned a tremendous amount from the world’s leading experts on process measurement and improvement. We developed the HBS by taking the best ideas and practices from our past experiences to create a system specifically for Hillenbrand Industries. With the HBS, we now have our own philosophy and standard practices for improving processes and eliminating non-value-added activities.

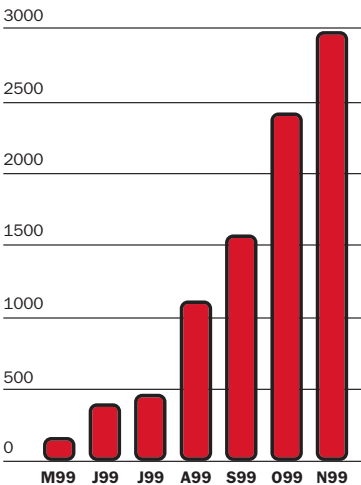
Our goal is to train, by the end of the year 2000, all Hillenbrand associates on how the system

works and how to apply our standard improvement processes in their operational areas and individual positions. By focusing on continuous improvement, we can increase our profitability and capacity to grow our business with lower capital costs and fewer people. Our improvement efforts have allowed us to gain market share and sustain profitability in price-competitive markets. They have also assisted us in integrating acquisitions faster and more efficiently.

In 1999, we continued our Advanced Management Continuous Improvement Program (AMCIP). AMCIP was designed in 1998 specifically for our leadership team to enhance its knowledge of the continuous improvement process and its ability to apply it on the job as an ongoing business standard. Twenty-nine leaders graduated from the intense three-month, full-time program in 1999, raising the total number of participants

**Hillenbrand Industries
HBS Training through 1999**

(persons trained)

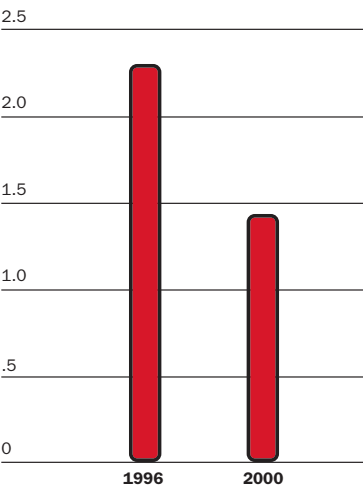


Source: Hillenbrand Industries

Launched in 1999, the Hillenbrand Business System is our philosophy and standard practice for improving businesses and eliminating non-value-added activities. By the end of the year 2000, our goal is to have all associates introduced to this system.

Batesville Casket Company Efficiency

(square feet/total caskets produced)



Source: Hillenbrand Industries

Since 1996, Batesville Casket has significantly reduced manufacturing space. During the same time, casket production has grown to record levels. Batesville’s ongoing commitment to HBS and continuous improvement processes allows them to achieve remarkable gains in efficiency and productivity.

since its inception to 39. A new feature of the program is an AMCIP North American Bus Tour where participants travel to 11 of our own company facilities to see first-hand how our associates are using continuous improvement processes to enhance safety and ergonomics, save space, reduce inventory, improve efficiencies, and more. We are among the few companies with such a unique leadership program and commitment to continuous improvement.

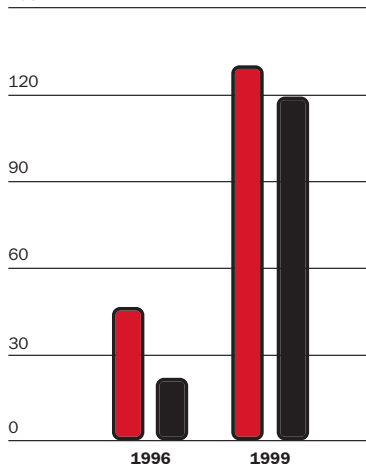
Following are examples of some 1999 improvements.

- At Batesville Casket Company, we reduced manufacturing space by 440,000 square feet while increasing capacity by 13%. This allowed us to close one of our metal casket production plants while increasing unit productivity by 20% in two other facilities.
- Batesville Casket's Doll Assembly Plant associates integrated a new copper casket production line into an existing manufacturing facility increasing daily plant production by 12%. Using the principles of continuous improvement, they freed up thousands of square feet for the new line and developed a new product washing process that enhances productivity.
- Hill-Rom's Architectural Products unit improved their production process flow to better match customer demand by decreasing manufacturing throughput times.
- Batesville's Manchester Manufacturing Plant associates freed up enough production floor space to integrate new hardware injection molding and plating operations, and to insource an existing product line.
- Hill-Rom's Charleston, S.C., Pick & Pack shipping associates contributed ideas to increase efficiencies, reduce inventory levels by 60% and reduce work space by 50%, making room for additional operations.
- Forethought Life Insurance operations improved processing efficiencies in its new business area by 50%, resulting in improved production flow and ergonomic conditions, using stand-up workstations – a new concept in an office environment.
- Options by Batesville associates improved urn manufacturing processes within the plant. Options was able to consolidate the urn warehousing, urn shipping, and rapidly growing urn personalization processes all within the same facility.

HBS Productivity Improvements: Hill-Rom Pick & Pack Operations

Orders shipped ■ per day ■ within 24 hours

150



Using continuous improvement processes, Hill-Rom's Pick & Pack operations located in Charleston, S.C., reduced inventory levels by 60%, shrank work space by 50%, and more than tripled the number of units processed per day.

Source: Hillenbrand Industries

Objectives of HBS:

- **provide highest quality products to our customers;**
- **reduce costs through the elimination of waste;**
- **develop associate potential based on mutual respect, trust and cooperation; and**
- **establish production standards based on market demand to improve responsiveness to change.**



Focusing On Growth

We grow our businesses by continually introducing new and **differentiated products** that meet the transitioning needs of our funeral services and health care customers. Our growth also comes from **acquisitions** and new business development **opportunities** focused only on health care, death care and financial services.

We're creating new products, services and businesses.

Associates, top from left, Donna Clark and Karen Case;
bottom from left, Sohrab Soltani and Lisa Amburgey

In 1999, we increased revenues and market share by focusing on niche opportunities and by significantly differentiating our products.

Acquisitions. In 1999, Hill-Rom acquired AMATECH Corporation of Acton, Mass. AMATECH is the world's leading manufacturer and distributor of surgical table accessories and patient positioning devices for the operating room. It represents a great niche market opportunity. AMATECH broadens Hill-Rom's global presence in the operating room products market.

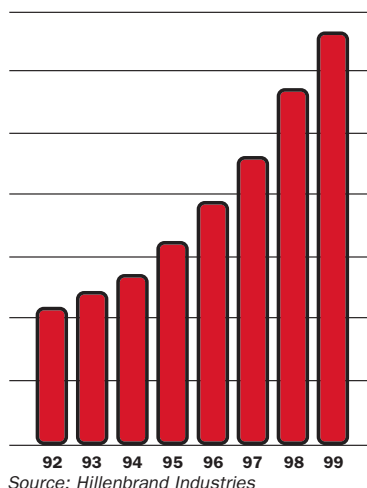
New Products. In the Funeral Services Group's **Forethought Financial Services** business, Forethought Federal Savings Bank continued to exceed goals for the nationwide expansion of our funeral planning trust products. Meanwhile, Forethought is also exploring new growth opportunities in Europe by test marketing products. Midyear, Forethought launched the Timeless Total Casket ProtectionSM program expanding our original program that freezes the wholesale price paid by funeral homes for Batesville® caskets delivered in conjunction with a Forethought preneed insurance or trust product.

Batesville Casket Company's new products and services reflect its vision of creating meaningful funeral experiences for families. The new MemoryFrame™ panel system allows families to display personal photographs

making a funeral service more meaningful. Demand for the new Golden Sand™ steel and Twilight™ stainless steel caskets featuring the new MemoryFrame™ panel system has exceeded expectations. Batesville's popular MemorySafe® drawer provides families a dignified means to secure and display letters, photographs and other cherished memorabilia inside a casket. This popular feature in our wood caskets is now being integrated into Batesville's bronze caskets. Also, with Batesville's customized laser-engraved casket technology, families can have the name of a loved one, special designs or emblems engraved on the casket top. In the case of fallen firefighters, police officers or armed services personnel, a service badge or military emblem can be engraved. These special features are just a few of the many personalization innovations that Batesville can deliver, in most cities, within 24 hours to funeral directors assisting families who want more meaningful funeral services.

New offerings from **Options by Batesville** illustrate why we remain the leading provider of cremation products. The Floral Reflections™ scattering

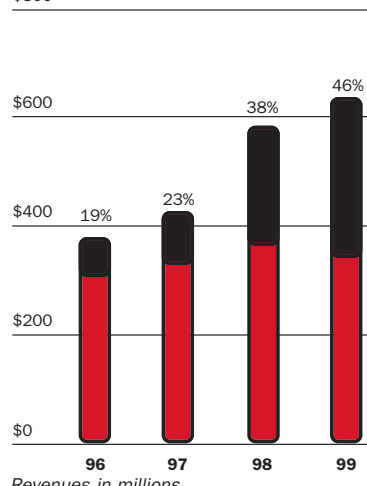
Hillenbrand Patents In Force



Producing new and differentiated products is one of our corporate growth strategies as illustrated by our increasing patent activity. Since 1992, the number of Patents In Force has more than tripled.

Hill-Rom New Capital Products Generate Revenues

■ % of Hill-Rom North American capital revenues from new products



Focusing on providing customers new and differentiated products drives the growth of our businesses. This chart illustrates at Hill-Rom, new products introduced within the past three years accounted for more than 46% of North American capital revenues in 1999.

urn introduces 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. For families who want simplicity, Options introduced The Standard™ cremation container constructed of wood composite material with an optional interior insert when viewing is desired.

In Health Care, **Hill-Rom** continues its legacy of introducing new products with new features. More than 46% of Hill-Rom's 1999 North American capital revenues came from new products introduced within the past three years. Hill-Rom's industry-leading products focus on providing three core benefits: 1) helping health care customers reduce their operating costs while improving efficiency, 2) reducing the risk of injury and increasing job satisfaction for caregivers, and 3) assisting patients with a quicker recovery.

The TotalCare® bed system by Hill-Rom is based on those three principles. Demand for this unique product remains strong proving that even in a soft market, high-end products with differentiated features will sell well. This bed's one-button chair and easy-egress positions allow patients to achieve mobility sooner with minimal risk of injury to themselves or caregivers. This product is one part of our product platform aimed at increasing caregiver productivity and decreasing injuries by eliminating the need for strenuous lifting. Several

other newer products showcase Hill-Rom's commitment to new product development. The new PRIMA™ surgical light delivers color-corrected, shadow-free illumination to surgical sites with fingertip control. The new Advanta™ bed by Hill-Rom also addresses patient and caregiver safety issues, caregiver efficiency, clinical outcomes, and patient satisfaction. The new DuraStar® hydraulic and fixed height stretchers are durable, reliable and have basic features at a price that makes them affordable by all customers. The V-Cue™ Dynamic Air Therapy® unit is the first rotational mattress replacement system designed to meet the needs of critically ill patients and the higher acuity medical/surgical patient. The SILKAIR® Overlay Low Airloss Therapy product is the first overlay support surface with zoned low airloss therapy, designed to treat existing pressure ulcers and reduce the risk of developing new ones. The new CarePorter™ cart can manage most equipment used in the hospital room and be taken with the patient during transport. The revolutionary On 3™* lateral transfer device, manufactured by Ergodyne Corporation and offered to hospitals exclusively by Hill-Rom, reduces the risk of back injury during lateral transfers.

Some of Hill-Rom's hundreds of products can be viewed at www.hill-rom.com.

*Licensed for use by Hill-Rom



In 1999, IndustryWeek magazine named Hillenbrand Industries one of the world's 100 best-managed companies. The magazine also recognized us for our steady stream of new and differentiated products.

Fortune magazine named Hillenbrand Industries one of America's top four most admired companies in the medical products and equipment industry.

Our ongoing commitment to new product development will fuel future growth and shareholder value.



Continuing Market Leadership

We are not satisfied to just discover and enter new niche markets related to the health care and funeral services industries we serve. Our **focus** is on obtaining and retaining the leadership position in each market. **Leadership** is achieved by observing and listening to our customers and the consumers they serve.

We're enhancing customer relationships.

Customers, top from left, A. A. Daftary, M.D., Margaret Mary Community Hospital and Zalo Wilson, Jr., Crown Hill Funeral Home at Crown Hill Cemetery; bottom from left, Howard N. Riggs, The Craver-Riggs Funeral Home and Crematory and Julie Morin, RN BSN, Cooper Hall Assisted Living & Rehab

By listening to our customers and consumers, we can go beyond offering great products. We bring comfort and assistance to people when they need it most.

That's why Hillenbrand Industries was selected one of the world's 100 best-managed companies by *IndustryWeek* magazine in 1999. *IndustryWeek* recognized our associates for their leadership within the health care and funeral services markets. In addition, the magazine recognized us for our steady stream of innovative new products that bring comfort and assistance to families. By starting with a vision to truly assist our customers and the people they serve, our products are supported by value-added programs that give them an edge over our competitors. That's how we gain market leadership.

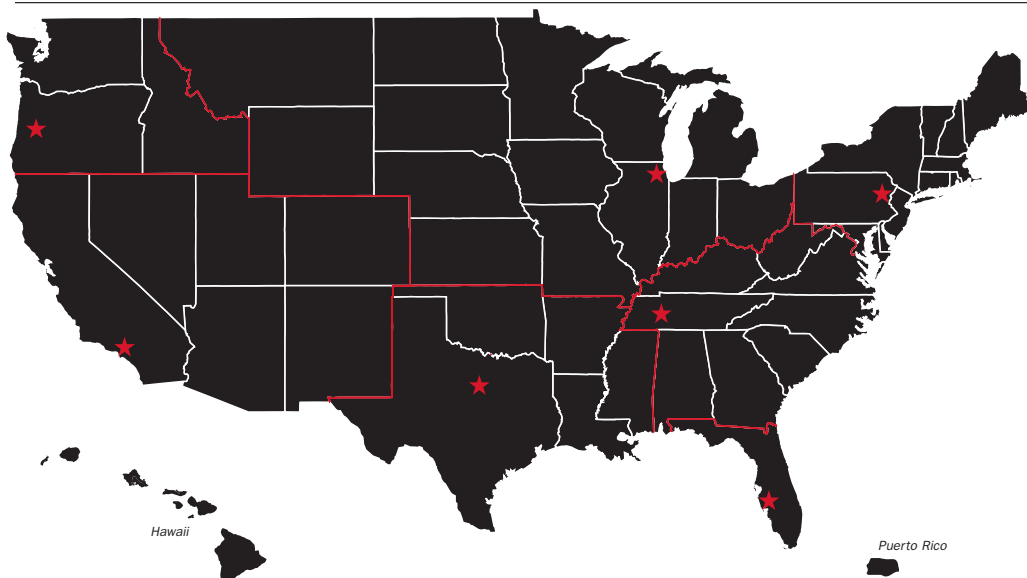
For example, the Living Memorial® tree-planting program by Batesville Casket Company received a 1999 Project Award from the National Arbor Day Foundation. The foundation recognizes outstanding projects that are collaborative activities involving tree planting, conservation and environmental stewardship. The Living Memorial® 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. Since the

program's inception 23 years ago, more than eight million commemorative trees have been planted, making this the largest private reforestation project in the United States.

In an effort to help promote the funeral profession, Batesville Casket has undertaken an aggressive media outreach program promoting the value and importance of meaningful funeral ceremonies. This effort has involved feature story placement in daily newspapers and on TV stations, as well as a grassroots media relations manual for use by funeral directors to generate positive news in their local communities.

The new Families First™ program by Batesville offers funeral professionals a turnkey, systemized program to educate consumers on how to create meaningful funerals. We have tested the Families First™ program in a number of funeral homes across the country. These firms have reported significant increases in revenues through selling personalization products and services that in turn have helped sell an improved mix of caskets. More importantly, these firms have told us

★ Batesville Casket Company Rapid Deployment Centers



Batesville Casket Company is the only casket manufacturer with a network of 7 Rapid Deployment Centers and more than 80 local Customer Service Centers. This means customers can order personalized products today, and receive them tomorrow in most cities.

that it has helped increase their families' satisfaction with the funerals they have planned.

In addition, Batesville's Applied Retail Systems (ARS) display fixturing division continues to offer its Meaningful MemoriesSM program that replaces the traditional caskets-only selection room with casket selections personalized in vignettes and grouped by themes such as patriotic, religious, family and more. This innovative merchandising system was developed in response to extensive consumer research that showed people desire more choices, more information and the ability to personalize the funeral to their own taste.

The Commemoration of a LifetimeSM program by Options by Batesville is the industry's first to assist funeral professionals in making cremation arrangements. It begins with training for the funeral arranger or preneed counselor and continues with elements directed toward the consumer. It helps funeral professionals communicate the value of services and memorialization to families who choose cremation.

Listening to customer input, Forethought Financial Services established the Forethought Federal Savings Bank to facilitate and expand Forethought[®] preneed funeral trust services to funeral professionals nationwide. Also, A.M. Best reaffirmed Forethought Life Insurance Company's "A" rating and stated, "...[It] reflects the company's continued leading position within the preneed insurance industry..."

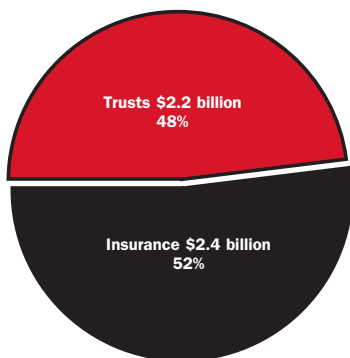
Continuing our Customer Visitation Program, in 1999 Batesville Casket, Forethought and Hill-Rom invited more than 12,000 customers to our headquarters to tour our showrooms, see our factories and share their ideas with us. We gathered from customers more than 4,000 new ideas about our current products and, more importantly, new products and services. We value this program for its ability to advise us on innovative products and programs that our customers want and need.

In 1999, Hill-Rom was recognized in a national study as having the best U.S. sales team serving the health care industry. Hill-Rom received *Selling Power* magazine's 1998 World Class Sales Award. Hill-Rom was also cited as having the ninth best sales team among the 134 top-rated U.S. sales forces.

Hill-Rom is listening to the transitioning needs of our European customers and responding. For example, Hill-Rom Europe was awarded a contract as the exclusive supplier for acute and long-term care beds and associated furniture by Assistance Publique de Paris. Assistance Publique de Paris is the largest health care purchasing group in France representing 50 hospitals in the Paris area.

In August, Hill-Rom established a new six-year agreement with Premier, one of the nation's largest health care alliances.

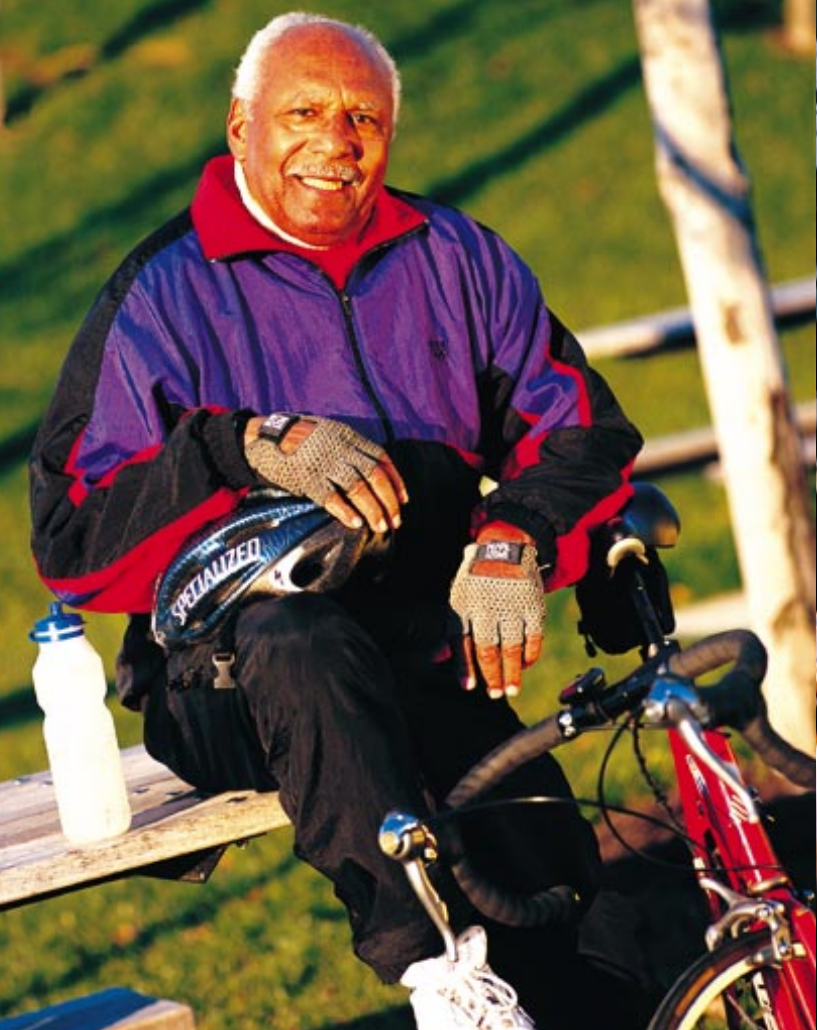
Forethought \$4.6 Billion Preneed Market



Source: Hillenbrand Industries

The long-time leader of the annual \$2.4 billion prearranged funeral insurance market, Forethought continues to grow by expanding its prearranged funeral trust product across the U.S. through its Forethought Federal Savings Bank. The annual market for funeral prearranged trusts is \$2.2 billion.

Listening to customers' needs will remain a priority as we grow our businesses.



Preparing for the Future

The age structure of the world population continues to shift.

Older age groups are an

increasingly larger share of

the total population. During

the period 1998-2025, the

world's elderly population,

ages 65 and above, will more

than **double**. We are truly on

the threshold of great

opportunities and **demand** for

our products and services.

We're preparing to meet the needs of an aging population.

Active retirees, top from left, Andy Weisenbach and Marilyn Sitterding;
bottom from left, Martin Dunbar and Dolores Enneking

Our health and death care businesses are prepared to capitalize on the growth opportunities created by assisting a transitioning, aging population.

In health care, the need for serving an aging and more acutely ill global population in hospitals, nursing homes and private homes is greater than at any other time in history. Scientific advances are creating new drugs and health care procedures that are permitting people to live longer. As a result, acute care, long-term care and home care patients are now older, sicker and stay longer in high-care settings. Caregivers' ages are also increasing at the same time the demand for elderly care is becoming more complex.

To serve this growing, aging market and ultimately drive shareholder value, **Hill-Rom's** mission will remain to serve caregivers and patients worldwide by developing and delivering innovative and differentiated solutions focused on improving patient care processes and outcomes with high quality products, services and related information. We will continue to expand our direct presence in established care markets, and will enter all markets where we can offer solutions that meet the customers' needs. We will pursue international expansion in countries that can sustain a reasonable health care spending level.

Hill-Rom is committed to being the recognized leader in the worldwide health care community. Our growing diversified line of health care products illustrates that commitment. We will continue to provide the best

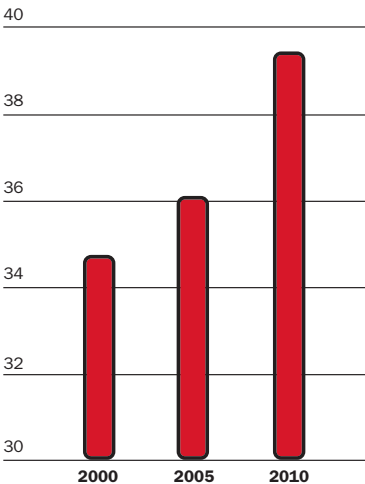
products and stand behind them with an array of service, support and people who care. Hill-Rom is more than just a hospital bed company. We meet the needs of caregivers with products including state-of-the-art beds, therapy surfaces, room furniture, modular wall systems, medical gas management systems, perinatal/neonatal products, staff/patient communication systems, stretchers, surgical products, and lighting solutions.

In death care, we are leading the trends and opportunities for personalizing and memorializing this aging population's legacy. We are helping younger generations, especially the baby boomers, to do the same for generations to come. Consumers are more knowledgeable about funerals and their expectations have increased. As the leaders of the markets they serve, Batesville Casket Company, Options by Batesville and Forethought Financial Services are uniquely positioned to help their customer – the independent funeral director – meet the growing demands of burial funeral, cremation and preplanned funeral consumers.

The cornerstone of our death care business, both today and in the future, is with the independent, family-owned funeral home. We are intensely committed to providing independent funeral directors the superior

Number of U.S. Persons 65+

(in millions)

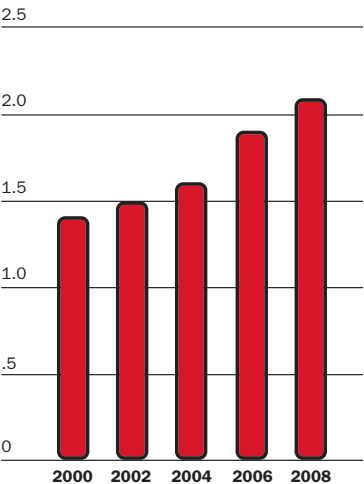


Source: U.S. Bureau of the Census

The older population, those 65 and older, in the U.S. continues to grow. The most rapid increase will be driven by the aging baby boomer generation. An older population will increase demand for both our health care and death care products and services.

National Health Expenditures

(in trillions)



Source: U.S. Health Care Financing Administration

Advances in medicine continue to extend the average lifetime. This means people who need acute care, long-term care or home care are older and more ill than in the past. This aging, more acutely ill, population will spend increasingly more dollars on health care. Thirty-six percent of health care spending comes from people 65 and older.

products, effective merchandising systems and support services they need to compete and achieve profitability. We are absolutely dedicated to the success of independent funeral directors. They have been, are, and will continue to be, the heart of our funeral services business.

Our Funeral Services Group will continue to lead innovations in the death care industry. We will extend that lead by providing funeral directors new products and services that create meaningful funeral and memorialization experiences for client families.

For example, Batesville Casket Company's new distribution network for coordination and delivery of its funeral service products will help us better serve the North American market. Seven Rapid Deployment Centers (RDC) enable Batesville Casket to replenish its network of more than 80 local Customer Service Centers throughout the United States and Canada overnight. It is a first-of-its-kind capability in the industry, modeled on the latest thinking in logistics. It gives us an enhanced ability to serve our customers in funeral service and, ultimately, the families they serve. In addition to providing overnight re-supply of caskets to every local Customer Service Center, the new RDC system also enhances Batesville Casket's ability to provide personalization features. Those features include casket engraving and customized corner designs.

As the desire for cremation grows, Options by Batesville will continue to offer products and services that

assist funeral professionals as they educate consumers about the benefits of a more meaningful cremation service and permanent memorialization.

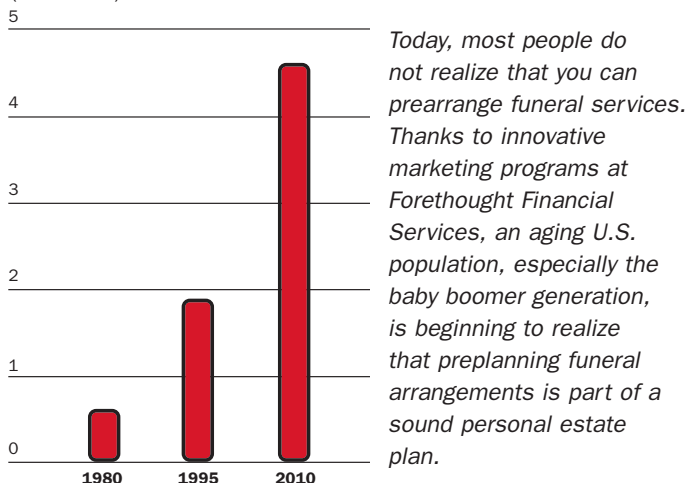
More than ever before, people, especially baby boomers, see funeral prearrangement as one part of a smart personal financial planning portfolio. Forethought Financial Services will continue to provide the insurance and trust-based products to meet their needs. We are exploring opportunities to expand this business in Europe as well.

We remain true to our Five Guiding Principles: Niche Market Leadership, Total Customer Satisfaction, Continuous Improvement, Individual Worth and Management for Cash Flow.

All across Hillenbrand Industries, our future success rests on our ability to aggressively execute our four growth strategies to keep shareholder value increasing. We will continue to create shareholder value by focusing on: **1)** growth through customer-driven new and differentiated product development; **2)** growth through the acquisition and creation of new business opportunities, including e-commerce, that complement our existing businesses; **3)** growth by using the Hillenbrand Business System of Continuous Improvement; and **4)** growth driven by attracting, developing and retaining the best leadership talent for our businesses. This is a new priority for us as we grow our businesses in a highly competitive labor market.

Prearranged Funeral Services

(in millions)



Source: Hillenbrand Industries

Our knowledge of the needs of an aging populace is creating shareholder value today and greater opportunities for the future.

Differentiated Products and Services

We will grow our businesses by remaining committed to developing innovative new products with differentiated features that meet the changing needs of our customers.

Death Care



Twilight™ casket



Batesville's engraved casket



Eagle Corner LifeSymbols™ casket hardware



The Standard™ cremation container



Commemoration of a Lifetime™ cremation arrangement program



Living Memorial® tree planting program



Meaningful Memories™ merchandising system



Health Care



Isolette® infant incubator



Yellofins™ stirrups



Advanta™ bed



On 3™* patient transfer device



EpiCarePorter™ system



PRIMA™ surgical light



SilkAire® mattress



COMposer® patient-nurse communications system

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1999 Financial Report

Hillenbrand Industries, Inc. and Subsidiaries

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Eleven Year Summary

Hillenbrand Industries, Inc. and Subsidiaries

		Ten Year Compounded			
(Dollars in millions except per share data)		Annual Growth Rate	1999	1998	1997
RESULTS OF OPERATIONS					
Net revenues	9%	\$2,047	2,001	1,776	
Operating expenses	9%	\$1,798	1,707	1,512	
Unusual charges (a)		\$ 38	66	–	
Operating profit	6%	\$ 211	228	264	
Other (expense) income, net (d)		\$ (16)	65	(5)	
Income from continuing operations before					
income taxes	6%	\$ 195	293	259	
% of net revenues		9.53	14.6	14.6	
Income taxes	5%	\$ 71	109	102	
% effective rate		36.7	37.0	39.4	
Income from continuing operations	7%	\$ 124	184	157	
% of net revenues		6.1	9.2	8.8	
Other items (b)		\$ –	–	–	
Net income	6%	\$ 124	184	157	
% average shareholders' equity		13.4	20.6	19.6	
PER SHARE DATA					
Income from continuing operations	8%	\$ 1.87	2.73	2.28	
Net income	7%	\$ 1.87	2.73	2.28	
Cash dividends	12%	\$ 0.78	0.72	0.66	
Earnings retained and reinvested	4%	\$ 1.09	2.01	1.62	
Book value	9%	\$12.64	14.25	12.94	
Average shares outstanding (000's)	(1%)	66,296	67,578	68,796	
FINANCIAL POSITION					
Current assets	9%	\$ 782	858	821	
Current liabilities	9%	\$ 371	375	359	
Working capital	8%	\$ 411	483	462	
Current ratio		2.1	2.3	2.3	
Equipment leased to others and property, net	(2%)	\$ 267	302	329	
Insurance assets (e)	29%	\$3,091	2,833	2,501	
Total assets	16%	\$4,433	4,280	3,828	
Shareholders' equity	8%	\$ 838	952	886	
OTHER DATA					
Capital expenditures	(5%)	\$ 79	88	85	
Depreciation, amort. & write-down of intangibles	2%	\$ 98	149	102	
Gross cash flow (c)	2%	\$ 190	301	235	
Employees	2%	10,800	10,400	9,800	
Shareholders	9%	22,900	24,500	24,000	
Stock price range – high and low		58¹/₈–26¹/₈	64 ¹¹ / ₁₆ –44 ⁹ / ₁₆	48 ⁵ / ₈ –33 ⁷ / ₈	
Price/earnings ratio – high and low		22–10	28–19	25–18	

(a) 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 operation in 1989-1993; gain on the sale of discontinued operation in 1993; and the cumulative effect of the 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 this Standard, insurance assets from 1995 to 1999 are stated at fair value. Prior amounts are stated at amortized cost.

1996	1995	1994	1993	1992	1991	1990	1989
1,684	1,625	1,577	1,448	1,303	1,084	982	872
1,448	1,420	1,336	1,202	1,109	928	852	750
–	26	85	14	–	–	–	–
236	179	156	232	194	156	130	122
(3)	(9)	(11)	(11)	(16)	(9)	(10)	(13)
233	170	145	221	178	147	120	109
13.8	10.5	9.2	15.3	13.7	13.6	12.2	12.5
93	80	55	89	67	57	48	45
39.9	47.1	37.9	40.3	37.6	38.8	40.0	41.3
140	90	90	132	111	90	72	64
8.3	5.5	5.7	9.1	8.5	8.3	7.3	7.3
–	–	–	14	5	(1)	4	7
140	90	90	146	116	89	76	71
19.3	12.7	13.4	25.2	23.1	19.7	18.2	19.5
2.02	1.27	1.26	1.86	1.55	1.23	0.97	0.86
2.02	1.27	1.26	2.04	1.62	1.22	1.02	0.96
0.62	0.60	0.57	0.45	0.35	0.29	0.28	0.25
1.40	0.67	0.69	1.59	1.27	0.93	0.74	0.71
11.44	10.54	9.78	8.98	7.65	6.76	5.96	5.35
69,474	70,758	71,278	71,407	71,915	72,885	73,971	74,377
694	640	566	595	556	397	409	345
320	301	259	311	277	240	193	153
374	339	307	284	279	157	216	192
2.2	2.1	2.2	1.9	2.0	1.7	2.1	2.3
346	367	359	327	307	297	314	338
2,157	1,851	1,557	1,212	912	655	434	248
3,396	3,070	2,714	2,291	1,958	1,545	1,277	1,048
787	746	693	640	548	491	436	397
92	103	100	113	98	59	76	130
99	127	97	113	118	97	96	82
223	207	179	231	227	183	171	155
9,800	9,800	10,000	9,800	10,700	10,500	9,500	9,000
24,000	30,000	29,000	27,000	21,500	11,000	9,800	9,500
40 ¹ / ₄ –31 ⁷ / ₈	33 ¹ / ₈ –27	43 ⁵ / ₈ –26 ⁵ / ₈	48 ⁵ / ₈ –36 ¹ / ₂	43 ⁵ / ₈ –29 ¹ / ₄	30 ³ / ₈ –17 ⁷ / ₈	24–15 ¹ / ₈	21 ¹ / ₂ –13 ¹ / ₄
29–19	30–17	24–13	32–21	34–25	27–17	23–15	22–14

Management's Discussion and Analysis of Financial Condition and Results of Operations

Hillenbrand Industries, Inc. and Subsidiaries

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 and \$46 million in 1998 and 1997, respectively. 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

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.

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 are attributable to some shipment delays and decreased orders by our acute care customers as they respond 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. 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 \$24 million due primarily to increased policies in-force year over year. Investment income grew about \$19 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 in order 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.

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

Consolidated Income Statement Comparison

(Dollars in millions)	1999	Fiscal Year		Percent Change 1999/98	Percent Change	
		1998	1997		1998/97	1997/96
Net revenues:						
Health Care sales	\$ 766	\$ 748	\$ 588	2%	27%	4%
Health Care rentals	324	403	378	(20%)	7%	1%
Funeral Services sales	602	541	545	11%	(1%)	4%
Insurance revenues	355	309	265	15%	17%	21%
Total revenues	\$2,047	\$2,001	\$1,776	2%	13%	5%
Gross profit:						
Health Care sales	\$ 314	\$ 320	\$ 266	(2%)	20%	14%
Health Care rentals	88	162	143	(46%)	13%	2%
Funeral Services sales	292	260	264	12%	(2%)	7%
Insurance revenues	82	76	56	8%	36%	51%
Total gross profit	776	818	729	(5%)	12%	11%
Other operating expenses	527	524	465	1%	13%	10%
Unusual charges	(38)	(66)	–	N/A	N/A	N/A
Operating profit	211	228	264	(7%)	(14%)	12%
Other (expense) income, net	(16)	65	(5)	N/A	N/A	(67%)
Income before income taxes	195	293	259	(33%)	13%	11%
Income taxes	71	109	102	(35%)	7%	10%
Net income	\$ 124	\$ 184	\$ 157	(33%)	17%	12%

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

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 in 1999 reflects a reduction in state taxes and lower operating losses in Europe.

RESULTS OF OPERATIONS

1998 Compared with 1997

Summary

Consolidated net revenues of \$2,001 million increased \$225 million, or 13%, in 1998. Operating profit of \$228 million was down 14%. Net income increased 17% to \$184 million, and earnings per share increased 20% to \$2.73.

Excluding the unusual items discussed in the remainder of this paragraph, operating profit increased 13% and net income increased 14%. 1998 results reflect income of \$47 million, net-of-tax, (\$.70 per share) relative to the sale of Medeco. The Company also recorded unusual charges totaling \$42 million, net-of-tax, (\$.62 per share). The charges include 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.

Net Revenues

Health Care sales of \$721 million increased \$179 million, or 33%, due to the effect of acquisitions and good market acceptance of the TotalCare® bed and increased unit volume of architectural, communication, procedural and maternal/infant care products in Hill-Rom's U.S. acute care market. Shipments of the Resident® LTC bed also increased as it continued to experience good market acceptance. Unit volume and revenues increased slightly in Hill-Rom's European market, partially offset by unfavorable currency adjustments. Excluding the sales effect from the purchase of Air-Shields, Inc. (Air-Shields) and MEDÆS Holdings, Inc. (MEDÆS), sales increased 11%.

Health Care rental revenue grew \$25 million, or 7%. In the U.S. long-term care market, rental revenues were down slightly year over year mainly due to the effect of a change in Medicare Part A patient reimburse-

ment practices effective July 1, 1998. Overall, higher volume was offset by lower rates and product mix in the long-term care market. The U.S. home care market experienced slightly higher revenues as unit growth from new and higher end products was partially offset by lower overall rates. In the U.S. acute care market, rental revenues were up year over year due to higher volume from new products which was partially offset by lower rates and product mix. Rental revenues in Europe increased slightly in nearly all markets, but were largely offset by unfavorable currency adjustments.

Funeral Services sales decreased \$4 million, or 1% due to lower product mix partially offset by increased shipments of hardwood and cremation products. Batesville's unit volume growth was accomplished in a market that is currently flat for casketed deaths.

Insurance revenues grew \$44 million or 17%. Investment income accounted for approximately \$18 million of the increase while earned premium revenue accounted for about \$14 million. Investment income grew mainly because of the increased size of the investment portfolio. Earned premium revenue increased mainly due to increased policies in-force year over year. Forethought's policy sales declined nearly 9% in 1998 primarily due to

several funeral home consolidators recently acquiring or starting preneed insurance operations in order 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. Forethought's trust business did not have a significant revenue impact in 1998 or in prior years.

Gross Profit

Gross profit on Health Care sales increased \$62 million, or 25%, to \$307 million, due primarily to increased shipments in Hill-Rom's U.S. markets. As a percentage of sales, gross profit declined from 45% in 1997 to 43% in 1998 primarily due to the integration of Air-Shields and MEDÆS which have lower margins compared to other Health Care products. Shipments of higher value products, continued improvements in direct material, labor and overhead costs, leveraging of fixed manufacturing expenses in the United States and decreased shipments of lower margin European products helped to partially offset the lower gross profit margins of Air-Shields and MEDÆS.

Gross profit on Health Care rentals of \$162 million was up \$19 million, or 13%. As a percentage of

Key Financial Data

	1999	1998	1997	1996	1995
Income Statement					
% Pretax, preinterest expense, income (EBIT) to revenues	11	16	16	15	12
% Pretax, preinterest expense, pre-depreciation and amortization expense, income (EBITDA) to revenues (a)	16	23	22	21	20
% Net income to revenues	6	9	9	8	6
% Income taxes to pretax income	37	37	39	40	47
Balance Sheet					
% Long-term debt-to-total capital	26	24	19	21	22
% Total debt-to-total capital	31	29	24	28	26
Current assets/current liabilities (b)	2.1	2.3	2.3	2.2	2.1
Working capital turnover (b) (c)	7.0	9.1	15.4	13.6	8.6
Profitability					
% Return on total capital	11	15	14	14	9
% Return on average shareholders' equity	13	21	20	19	13
Asset Turnover					
Revenues/inventories (b)	15.0	16.1	19.1	15.3	12.9
Revenues/receivables (b)	4.1	4.3	4.5	5.1	4.6
Stock Market					
Year-end price/earnings (P/E)	19	21	20	18	25
Year-end price/book value	2.8	4.1	3.4	3.3	3.1

(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 due to differences in the calculation.

(b) Excludes insurance operations.

(c) Excludes cash.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

sales, gross profit improved to 40% in 1998 compared to 38% in 1997. This increase reflects the increased unit volume experienced in all U.S. markets, continued process improvements and cost control.

Gross profit on Funeral Services sales of \$260 million decreased \$4 million, or 2%, in 1998. As a percentage of sales, gross profit remained essentially unchanged at 48%. This comparison reflects the mix change in Batesville's year-to-year sales discussed above. Even with increased unit volume and lower overall pricing, gross profit as a percent of sales remained unchanged due to process improvements and cost controls.

Profit before other operating expenses in insurance operations increased \$20 million, or 36%, to \$76 million in 1998 due to higher investment income (with minimal corresponding direct cost), profits earned on the larger base of policies in-force, net gains on the sale of investments and continued control of direct administrative expenses. 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 \$59 million, or 13% in 1998. As a percentage of consolidated revenues, these expenses remained essentially unchanged at 26% in 1997 and 1998. This is a result of continued cost control and process improvement throughout the Company.

Operating Profit

Operating profit in Health Care decreased \$52 million, or 40%, to \$78 million. This decrease is mainly due to 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 Hill-Rom facilities in Germany and Austria. Excluding this charge, operating profit would have been \$148 million in 1998, or a 14% increase, due to increased sales of higher value products in the U.S. acute care market and an increase in rental revenues partially offset by higher incentive compensation and commission expenses.

Operating profit in the Funeral Services Group of \$170 million increased \$10 million, or 6%, from 1997. At Batesville, operating profit decreased slightly in 1998 as increased casket and cremation volume was offset by lower pricing on an unfavorable product mix. Operating expenses remained essentially unchanged. At Forethought, higher investment income, increased capital gains and cost controls helped to increase operating profit.

Consolidated operating profit of \$228 million decreased \$36 million, or 14%. Excluding the unusual charges discussed above, consolidated operating profit would have been \$298 million, a 13% increase. A decrease in corporate expenses in 1998 contributed to the growth in operating profit.

Other Income and Expense

Interest expense increased due to additional long-term debt associated with the addition of \$100 million in debentures issued in December 1997. Investment income grew slightly due to a higher earnings rate on investments partially offset by lower levels of cash, cash equivalents and short-term investments. Excluding the gain of \$75 million on the sale of Medeco, other income and expense, net was unchanged year to year.

Income Taxes

The effective income tax rate was 37.0% for 1998 and 39.4% for 1997. The recognition of a tax benefit relating to the discontinuance of manufacturing operations in Germany and Austria contributed to the lower tax rate in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash flows from operating activities and selected borrowings represent the Company's primary sources 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 November 27, 1999 decreased \$127 million to \$170 million compared to November 28, 1998, mainly due to business acquisitions, the purchase of treasury stock, capital expenditures, repayment of loans totaling \$44 million related to the Corporate-Owned Life Insurance program and the payment of cash dividends partially offset by cash generated from operating activities.

Operating Activities

Net cash generated by operating activities of \$150 million in 1999 decreased \$23 million compared to the \$173 million generated in 1998. Contributing to the decrease were lower earnings, a decrease in depreciation, amortization and write-down of intangibles and unfavorable movements in most components of working capital.

The decrease in depreciation, amortization and write-down of intangibles is due to the unusual charge of \$43 million to write-off the goodwill associated with the discontinuance of manufacturing facilities in Germany

and Austria in 1998 combined with lower actual depreciation and amortization expense in 1999 resulting from the closure of these two facilities and a decrease in the manufacture of new rental units. The adverse changes in working capital are partially due to strong fourth quarter shipments at Batesville and slower collections from Medicare intermediaries and insurance at Hill-Rom which resulted in higher receivables. This also caused consolidated days revenues outstanding to increase to 86 in 1999 compared to 76 in 1998. The increase in other current assets is mainly due to increased deferred taxes and the decrease in accrued expenses relates to lower incentive compensation in 1999.

Investing Activities

Net cash used in investing activities decreased from \$446 million to \$287 million in 1999. This decrease is primarily due to fewer acquisitions in 1999, lower capital expenditures and favorable effects of 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 in 1999, 1998 and 1997 resulted in net gains.

Financing Activities

The Company's long-term debt-to-total capital ratio was 26% at year-end 1999 compared with 24% at year-end 1998. This increase was primarily due to decreases in the Company's equity resulting from the purchase of treasury stock, a decrease in accumulated other comprehensive income and the payment of normal dividends partially offset by current year earnings.

Quarterly cash dividends per share were \$.165 in 1997, \$.18 in 1998 and \$.195 in 1999. An additional increase to \$.20 per quarter was approved by the Board of Directors in January 2000.

Insurance Assets and Liabilities

Insurance assets of \$3,091 million grew 9.1% over the past year. Cash and invested assets of \$2,311 million constitute 74.8% of the assets. The investments are concentrated in U.S. Treasuries and agencies and high-grade corporate bonds. The invested assets are more than adequate to fund the insurance reserves and other liabilities of \$2,132 million. Statutory reserves represent 62% of the face value of insurance in force.

Forethought Life Insurance Company made a \$14 million dividend payment in 1998 to Hillenbrand Industries. The statutory capital and surplus as a percent of statutory liabilities of Forethought was 11% and 8% at December 31, 1999 and 1998, 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 1999 and 1998.

Shareholders' Equity

Cumulative treasury stock acquired in open market and private transactions increased to 18,322,467 shares in 1999, up from 15,067,167 shares in 1998. As of year end the Company currently has Board of Directors' authorization to repurchase up to a total of 19,289,067 shares. Repurchased shares are to be used for general business purposes. From the cumulative shares acquired, 42,956 shares, net of shares converted to cash to pay withholding taxes, were reissued in 1999 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 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities and requires that all derivatives be recognized on the balance sheet at fair value. Changes in fair values of derivatives will be accounted for based upon their intended use and designation. Since the Company's holdings in such instruments are minimal, adoption of this Standard is not expected to have a material effect on the Company's consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

The Company is required to adopt the Standard not later than the first quarter of fiscal 2001.

Unusual Charges

On November 23, 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, all of which is reflected within the Unusual charges line of the Statement of Consolidated Income. As of year end, essentially no spending had occurred relative to the \$19 million cash component of this charge.

Included in the cost-cutting actions announced at Hill-Rom was the reduction of 350 employees, about 5% of its workforce, in the United States and Europe and the closure of select manufacturing and sales, service/distribution facilities in the United States and Europe to eliminate redundant operations. With respect to the employee head count reduction, most affected employees will be administrative personnel and the actions will be completed within the next nine months. The facility closures are also expected to occur on a similar timeline, but certain aspects of the closure and disposal activities could take longer. Estimated costs for the work force and facility closure actions are estimated at \$8 million and \$3 million, respectively. These actions were precipitated by adverse customer reaction to continued changes in Medicare reimbursement practices which have resulted in the postponement or cancellation of capital goods orders by many of Hill-Rom's customers.

The unusual charge also includes a total of \$10 million relative to asset impairments. This charge included the write-down of a small Hill-Rom investment in a non-core business currently being held for sale and the write-off of goodwill and other strategic investments which were significantly underperforming original expectations or had essentially discontinued operations. Asset impairment charges were determined based upon projected future cash flows, independent appraisals and sales activities, market assessments and management estimates of losses to be incurred upon disposition of the affected assets.

The remaining component of the fourth quarter of 1999 unusual charge relates to the estimated \$8 million cost of a field corrective action to be taken for a previously acquired product line. The action will involve

the replacement of certain key components of the product aimed at enhancing the overall effectiveness and safety of the product. This action is expected to be completed within the next six months, but could take longer depending on the availability of necessary components and other requirements.

In March 1999, Batesville announced the planned closing of its Campbellsville, Kentucky casket manufacturing plant. Approximately 200 production and administrative employees were affected. Production of Campbellsville casket units was transferred to existing plants located in Batesville, Indiana and Manchester, Tennessee.

The closure of the Campbellsville manufacturing plant necessitated a \$9 million unusual charge in the second quarter of 1999. The non-cash component consisted of a \$5 million write-down of property, plant and equipment which was determined based upon independent assessments, market appraisals and management estimates of losses to be incurred upon the disposition of the Campbellsville facility and surplus equipment. Property, plant and equipment to be disposed of have an adjusted fair market value of approximately \$5 million, not including costs of disposal. Additional charges in the plan included \$3 million for severance and employee benefit costs and \$1 million of other estimated plant closing costs. This charge was reflected within the Unusual charges line of the Statement of Consolidated Income.

As of November 27, 1999, manufacturing operations had been discontinued at the plant and production successfully relocated. Nearly all severance and employee benefit costs and estimated plant closing costs had been incurred, with no adjustments being made to such reserves through year end. The disposition of property, plant and equipment is targeted to be completed within the next six months, but could take longer.

In August 1998, the Company approved a plan to restructure Hill-Rom's direct and support operations in Germany and Austria to permit the Company to more efficiently meet the needs of its customers and improve profitability. Under the plan, the Company reduced its fixed costs and aligned manufacturing, distribution, sales and administrative functions with anticipated demand. These actions resulted in the closure of manufacturing facilities in Germany and Austria and the relocation of certain manufacturing and business processes to other European locations.

The plan necessitated the provision of a \$70 million asset impairment and restructuring charge in 1998. The non-cash component of the charge included

a \$43 million write-off of German subsidiary goodwill, \$7 million for the write-down of property, plant and equipment held for sale and \$3 million for obsolete inventory resulting from the realignment of operations. The plan also included additional charges for severance and employee benefit costs of \$10 million and other estimated plant closing costs of \$7 million. This charge, with the exception of the inventory component which was recorded in cost of goods sold, was reflected within the Unusual charges line of the Statement of Consolidated Income.

As of November 27, 1999, manufacturing operations have been discontinued in Germany and Austria. Nearly all of the severance and employee benefit costs and \$5 million in other plant closing costs were incurred through 1999. During 1999, approximately \$2 million of the provision for other plant closing costs was 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 plant in Germany is targeted to be completed within the next three months, but could take longer. The disposition of excess and discontinued inventories and production equipment from the German and Austrian facilities is complete, and the facility in Austria was sold in December 1999.

In addition to costs accrued under the above outlined plans, approximately \$2 million of incremental costs related to the closure of manufacturing facilities in Germany, Austria and Campbellsville were incurred. These incremental costs include expenses such as travel, employee relocation and the relocation of certain manufacturing and business processes. These 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 \$21 million and \$17 million as of November 27, 1999 and November 28, 1998, respectively.

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 will 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.

The Company has been notified by the Health Care Financing Administration (HCFA) that it may review the coding for some of the Company's Home Care rental products. Depending on the outcome of any decision there could be a dampening effect on the Company's future rental revenue derived from Medicare patients in the home care market.

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.

Year 2000 Date Conversion

Many computer programs used only two digits to identify years. These programs were designed without consideration for the effect of the change in century, and if not corrected, could have failed or created erroneous results at the year 2000. Essentially all of the Company's information technology-based systems, as well as many non-information based systems, were potentially affected by the Year 2000 issue.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

In order to prepare for the Year 2000 issue, the Company implemented the following remediation plan for technology-based systems:

1. *Identification of all applications and hardware with potential Year 2000 issues.*
2. *For each item identified, perform an assessment to determine an appropriate action plan and timetable for remediation of each item.*
3. *Implementation of the specific action plan.*
4. *Test each application upon completion.*
5. *Place the new process into production and conduct systems integration testing.*

The Company successfully implemented the above remediation plan for all affected information technology-based systems and other remediation plans related to non-Management Information Systems and to products sold before the turn of the century. Following the arrival of the Year 2000, the Company has not experienced any problems with devices and raw materials manufactured and/or supplied by third parties. There was no interruption in the Company's ability to build and deliver its products and transact business with its suppliers and customers. The Company has received no notifications from customers regarding Year 2000 issues related to products it has sold. The Company continues to monitor its systems, suppliers and products for any unanticipated issues that may not yet have manifested.

The total cost to the Company of achieving Year 2000 compliance is estimated to be approximately \$9 million. All costs related to achieving Year 2000 compliance are based on management's best estimates.

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 bonds and U.S. agencies and treasuries 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 in order 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 November 27, 1999, and November 28, 1998, a hypothetical 10% increase in weighted average interest rates could reduce the market value of the investment portfolio approximately \$111 and \$77 million, respectively, over a twelve-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 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 November 27, 1999, 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	November 27, 1999	November 28, 1998	November 29, 1997
Net Revenues			
Health Care sales	\$ 766	\$ 748	\$ 588
Health Care rentals	324	403	378
Funeral Services sales	602	541	545
Insurance revenues	355	309	265
Total revenues	2,047	2,001	1,776
Cost of Revenues			
Health Care cost of goods sold	452	428	322
Health Care rental expenses	236	241	235
Funeral Services cost of goods sold	310	281	281
Insurance cost of revenues	273	233	209
Total cost of revenues	1,271	1,183	1,047
Other operating expenses	527	524	465
Unusual charges (Note 5)	(38)	(66)	—
Operating Profit	211	228	264
Other income (expense), net:			
Interest expense	(27)	(27)	(21)
Investment income, net	16	19	18
Other (Note 4)	(5)	73	(2)
Income Before Income Taxes	195	293	259
Income taxes	71	109	102
Net Income	\$ 124	\$ 184	\$ 157
Basic and Diluted Net Income per Common Share	\$ 1.87	\$ 2.73	\$ 2.28
Dividends per Common Share	\$.78	\$.72	\$.66
Average Number of Common Shares Outstanding	66,295,770	67,577,803	68,796,439

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

	November 27, 1999	November 28, 1998
ASSETS		
Current Assets		
Cash, cash equivalents and short-term investments	\$ 170	\$ 297
Trade accounts receivable, less allowances of \$54 in 1999 and \$29 in 1998	413	392
Inventories	113	105
Other	86	64
Total current assets	782	858
Equipment Leased to Others	273	288
Less accumulated depreciation	204	207
Equipment leased to others, net	69	81
Property	624	662
Less accumulated depreciation	426	441
Property, net	198	221
Other Assets		
Intangible assets at amortized cost:		
Patents and trademarks	19	20
Excess of cost over net asset values of acquired companies (Note 3)	159	164
Other	14	14
Deferred charges and other assets	101	89
Total other assets	293	287
Insurance Assets (Note 13)		
Investments	2,311	2,204
Deferred acquisition costs	584	536
Deferred income taxes	79	34
Other	117	59
Total insurance assets	3,091	2,833
Total Assets	\$4,433	\$4,280

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

	November 27, 1999	November 28, 1998
LIABILITIES		
Current Liabilities		
Short-term debt (Notes 6 and 9)	\$ 52	\$ 60
Current portion of long-term debt (Notes 6 and 9)	—	1
Trade accounts payable	80	69
Income taxes payable (Note 11)	22	27
Accrued compensation	53	73
Other	164	145
Total current liabilities	371	375
Long-Term Debt (Notes 6 and 9)	302	303
Other Long-Term Liabilities (Note 7)	68	81
Deferred Income Taxes (Notes 1 and 11)	3	4
Insurance Liabilities (Note 13)		
Benefit reserves	2,092	1,856
Unearned revenue	719	674
General liabilities	40	30
Total insurance liabilities	2,851	2,560
Total Liabilities	3,595	3,323
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 1999 and 1998	4	4
Additional paid-in capital	24	20
Retained earnings (Note 6)	1,293	1,221
Accumulated other comprehensive (loss) income (Note 1)	(38)	45
Treasury stock, at cost: 1999 — 16,777,137 shares; 1998 — 13,564,793 shares	(445)	(333)
Total Shareholders' Equity	838	957
Total Liabilities and Shareholders' Equity	\$4,433	\$4,280

See Notes to Consolidated Financial Statements.

Statements of Consolidated Cash Flows

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions)

Year Ended	November 27, 1999	November 28, 1998	November 29, 1997
Operating Activities			
Net income	\$ 124	\$ 184	\$ 157
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation, amortization and write-down of intangibles	98	149	102
Change in noncurrent deferred income taxes	(2)	(3)	(12)
Gain on sale of business	–	(75)	–
Change in working capital excluding cash, current debt, acquisitions and dispositions:			
Trade accounts receivable	(18)	(36)	(46)
Inventories	(6)	(2)	17
Other current assets	(21)	2	–
Trade accounts payable	10	(12)	21
Accrued expenses and other liabilities	(6)	(14)	32
Change in insurance deferred policy acquisition costs	(48)	(63)	(67)
Change in other insurance items, net	50	48	35
Other, net	(31)	(5)	7
Net cash provided by operating activities	150	173	246
Investing Activities			
Capital expenditures	(79)	(88)	(85)
Proceeds on disposal of fixed assets and equipment leased to others	4	10	1
Acquisitions of businesses, net of cash acquired	(54)	(188)	–
Other investments	(4)	(11)	(4)
Proceeds on sale of business	–	64	–
Insurance investments:			
Purchases	(797)	(746)	(721)
Proceeds on maturities	177	168	112
Proceeds on sales	466	345	358
Net cash used in investing activities	(287)	(446)	(339)
Financing Activities			
Additions to short-term debt	12	39	10
Reductions to short-term debt	(13)	(13)	(15)
Additions to long-term debt	–	101	–
Reductions to long-term debt	(1)	(1)	(2)
Payment of cash dividends	(52)	(48)	(45)
Treasury stock acquired	(113)	(85)	(13)
Insurance premiums received	488	495	514
Insurance benefits paid	(309)	(282)	(256)
Net cash provided by financing activities	12	206	193
Effect of Exchange Rate Changes on Cash	(2)	–	(2)
Total Cash Flows	(127)	(67)	98
Cash, Cash Equivalents and Short-Term Investments			
At beginning of year	297	364	266
At end of year	\$ 170	\$ 297	\$ 364

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 December 1, 1996	\$4	\$18	\$ 973	\$ 31	\$(235)	\$791
Comprehensive Income						
Net income	—	—	157	—	—	157
Foreign currency translation adjustment	—	—	—	(13)	—	(13)
Net change in unrealized gain (loss) on available for sale securities	—	—	—	13	—	13
Total comprehensive income						157
Dividends	—	—	(45)	—	—	(45)
Treasury shares acquired (290,395)	—	—	—	—	(13)	(13)
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

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Hillenbrand Industries, Inc. and Subsidiaries

(Dollars in millions except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies specific to insurance operations are summarized in Note 13.

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 intercompany 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 1999. 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 protective 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 30% of Hillenbrand's revenues in 1999. Forethought provides funeral homes in 49 U.S. states, the District of Columbia, Puerto Rico and nine Canadian provinces with life insurance policies and marketing support for preneed, inflation-protected funeral planning. It entered the preneed trust market in 1997. Forethought generated 17% of Hillenbrand's revenues in 1999.

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:

	1999	1998
Cash and cash equivalents	\$ 26	\$ 86
Short-term investments	144	211
Total	\$170	\$297

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 52% and 56% of the Company's inventories at November 27, 1999 and November 28, 1998, 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:

	1999	1998
Finished products	\$ 67	\$ 58
Work in process	31	32
Raw materials	15	15
Total	\$113	\$105

If the FIFO method of inventory accounting, which approximates current cost, had been used for all inventories, they would have been approximately \$7 million and \$9 million higher than reported at November 27, 1999 and November 28, 1998, 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 1999 and 1998 were:

	1999	1998
Land	\$ 17	\$ 18
Buildings and building equipment	148	152
Machinery and equipment	459	492
Total	\$624	\$662

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 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 \$156 million and \$150 million as of November 27, 1999 and November 28, 1998, respectively.

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, clean-up 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 shipment of products to customers. 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

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," in the first quarter of 1998. SFAS No. 128 requires disclosure of basic and diluted earnings per 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

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

were reported separately in shareholders' equity, to be included in other comprehensive income. Due to this change, certain balance sheet reclassifications have been made in order for previously reported amounts to conform to the SFAS No. 130 presentation.

The composition of accumulated other comprehensive (loss) income at November 27, 1999 and November 28, 1998 is the cumulative adjustment for unrealized losses or gains on available-for-sale securities, mainly relating to the insurance portfolio, of (\$30) and \$52 million, respectively, and the foreign currency translation adjustment of (\$8) and (\$7) 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 disclosure provisions associated with 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.

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 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities and requires that all derivatives be recognized on the balance sheet at fair value. Changes in fair values of derivatives will be accounted for based upon their intended use and designation. Since the Company's holdings in such instruments are minimal, adoption of this Standard is not expected to have a material effect on the Company's consolidated financial statements. The Company is required to adopt the Standard not later than the first quarter of fiscal 2001.

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:

	1999	1998	1997
Service cost	\$ 11	\$ 8	\$ 8
Interest cost	11	10	9
Expected return on plan assets	(11)	(10)	(10)
Net pension expense	\$ 11	\$ 8	\$ 7

The change in benefit obligation, change in plan assets, funded status and amounts recognized in the consolidated balance sheets at November 27, 1999 and November 28, 1998 for the Company's domestic defined benefit retirement plans were as follows:

	November 27, 1999	November 28, 1998
Change in benefit obligation:		
Benefit obligation at beginning of year	\$161	\$135
Service cost	11	8
Interest cost	11	10
Amendments	-	1
Actuarial (gain)/loss	(18)	11
Benefits paid	(4)	(4)
Benefit obligation at end of year	161	161
Change in plan assets:		
Fair value of plan assets at beginning of year	144	124
Actual (loss)/return on plan assets	(9)	16
Employer contributions	9	8
Benefits paid	(4)	(4)
Fair value of plan assets at end of year	140	144
Funded status	(21)	(17)
Unrecognized net actuarial gain	(8)	(11)
Unrecognized prior service cost	2	3
Accrued benefit cost	\$ (27)	\$ (25)

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

	1999	1998	1997
Discount rate	7.75%	7.25%	7.5%
Expected rate of return on plan assets	8.0%	8.0%	8.0%
Rate of compensation increase	5.5%	5.5%	5.5%

All of the Company's domestic pension plans had projected benefit obligations in excess of plan assets as of November 27, 1999 and November 28, 1998.

In addition to the above plans, the Company assumed the unfunded liabilities of a defined benefit plan in a German acquisition in 1994. The unfunded benefit obligation of this plan, included in accrued expenses, was \$10 million on November 27, 1999 and \$11 million on November 28, 1998. Pension expense was negligible in 1999 and 1998 and was \$1 million in 1997.

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 \$5 million in 1999, \$6 million in 1998 and \$5 million in 1997.

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 preliminary purchase price allocation, was approximately \$23 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

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

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 had occurred November 30, 1997, and all fiscal 1998 acquisitions had occurred December 1, 1996, unaudited fiscal 1997 pro forma consolidated net revenue would have increased by approximately \$150 million, and net income and earnings per share would have decreased by less than 5%. Unaudited fiscal 1998 and 1999 pro forma revenue, net income and earnings per share would not have been materially different from reported amounts. Such unaudited consolidated pro forma information is not necessarily indicative of the combined results that would have occurred had the acquisitions taken place on those dates, nor is it indicative of the results that may occur in the future.

4. DISPOSITION

On July 1, 1998, the Company sold its high security and access control business, Medeco Security Locks, Incorporated, to Assa Abloy AB. The Company recorded an after-tax gain of approximately \$47 million in the third quarter. 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

On November 23, 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, all of which is reflected within the Unusual charges line of the Statement of Consolidated Income. As of year-end, essentially no spending had occurred relative to the \$19 million cash component of this charge.

Included in the cost cutting actions announced at Hill-Rom was the reduction of 350 employees, about 5% of its workforce, in the United States and Europe and the closure of select manufacturing and sales, service/distribution facilities in the United States and Europe to eliminate redundant operations. With respect to the employee head count reduction, most affected employees will be administrative personnel and the actions will be completed within the next nine months. The facility closures are also expected to occur on a similar timeline, but certain aspects of the closure and disposal activities could take longer. Estimated costs for the workforce and facility closure actions are estimated at \$8 million and \$3 million, respectively. These actions were precipitated by adverse customer reaction to continued changes in Medicare reimbursement practices which have resulted in the postponement or cancellation of capital goods orders by many of Hill-Rom's customers.

The unusual charge also includes a total of \$10 million relative to asset impairments. This charge included the write-down of a small Hill-Rom investment in a non-core business currently being held for sale and the write-off of goodwill and other strategic investments which were significantly underperforming original expectations or had essentially discontinued operations. Asset impairment charges were determined based upon projected future cash flows, independent appraisals and sales activities, market assessments and management estimates of losses to be incurred upon disposition of the affected assets.

The remaining component of the fourth quarter of 1999 unusual charge relates to the estimated \$8 million cost of a field corrective action to be taken for a

previously acquired product line. The action will involve the replacement of certain key components of the product aimed at enhancing the overall effectiveness and safety of the product. This action is expected to be completed within the next six months, but could take longer depending on the availability of necessary components and other requirements.

In March 1999, Batesville announced the planned closing of its Campbellsville, Kentucky casket manufacturing plant. Approximately 200 production and administrative employees were affected. Production of Campbellsville casket units was transferred to existing plants located in Batesville, Indiana and Manchester, Tennessee.

The closure of the Campbellsville manufacturing plant necessitated a \$9 million unusual charge in the second quarter of 1999. The non-cash component consisted of a \$5 million write-down of property, plant and equipment which was determined based upon independent assessments, market appraisals and management estimates of losses to be incurred upon the disposition of the Campbellsville facility and surplus equipment. Property, plant and equipment to be disposed of have an adjusted fair market value of approximately \$5 million, not including costs of disposal. Additional charges in the plan included \$3 million for severance and employee benefit costs and \$1 million of other estimated plant closing costs. This charge was reflected within the Unusual charges line of the Statement of Consolidated Income.

As of November 27, 1999, manufacturing operations had been discontinued at the plant and production successfully relocated. Nearly all severance and employee benefit costs and estimated plant closing costs had been incurred, with no adjustments being made to such reserves through year end. The disposition of property, plant and equipment is targeted to be completed within the next six months, but could take longer.

In August 1998, the Company approved a plan to restructure Hill-Rom's direct and support operations in Germany and Austria to permit the Company to more efficiently meet the needs of its customers and improve profitability. Under the plan, the Company reduced its fixed costs and aligned manufacturing, distribution, sales and administrative functions with anticipated demand. These actions resulted in the closure of manufacturing facilities in Germany and Austria and the relocation of certain manufacturing and business processes to other European locations.

The plan necessitated the provision of a \$70 million asset impairment and restructuring charge in 1998. The non-cash component of the charge included a \$43 million write-off of German subsidiary goodwill, \$7 million for the write-down of property, plant and equipment held for sale and \$3 million for obsolete inventory resulting from the realignment of operations. The plan also included additional charges for severance and employee benefit costs of \$10 million and other estimated plant closing costs of \$7 million. This charge, with the exception of the inventory component which was recorded in cost of goods sold, was reflected within the Unusual charges line of the Statement of Consolidated Income.

As of November 27, 1999, manufacturing operations have been discontinued in Germany and Austria. Nearly all of the severance and employee benefit costs and \$5 million in other plant closing costs were incurred through 1999. During 1999, approximately \$2 million of the provision for other plant closing costs was 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 plant in Germany is targeted to be completed within the next three months, but could take longer. The disposition of excess and discontinued inventories and production equipment from the German and Austrian facilities is complete, and the facility in Austria was sold in December 1999.

In addition to costs accrued under the above outlined plans, approximately \$2 million of incremental costs related to the closure of manufacturing facilities in Germany, Austria and Campbellsville were incurred. These incremental costs include expenses such as travel, employee relocation and the relocation of certain manufacturing and business processes. These 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 \$21 million and \$17 million as of November 27, 1999 and November 28, 1998, respectively.

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

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:

	November 27, 1999	November 28, 1998
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	2	2
Other	—	2
Total	302	304
Less current portion	—	1
Total long-term debt	\$302	\$303

Scheduled payments on long-term debt as of November 27, 1999 total less than \$1 million in each of the years 2000 through 2004.

Short-term debt consists of borrowings under various lines of credit maintained for foreign subsidiaries. The weighted average interest rate on all short-term borrowings outstanding as of November 27, 1999 and November 28, 1998 was approximately 4.0%.

At November 27, 1999, the Company had uncommitted credit lines totaling \$88 million available for its operations. These agreements have no commitment fees, compensating balance requirements or fixed expiration dates.

7. STOCK-BASED COMPENSATION

At November 27, 1999, 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 four 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 payments of common stock of the Company to participants contingent on their continued employment and upon achievement of pre-established financial objectives of the Company over succeeding three-year periods. A total of 1,044,425 shares of common stock of the Company remain reserved for issuance under the program. Total tentative performance shares payable through November 27, 1999, were 155,961. 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 239,777 shares are deferred of which 210,381 are vested and payable as of November 27, 1999. The fair value of common stock granted under this program was \$57.94, \$44.56 and \$36.88 per share in 1999, 1998 and 1997, 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 November 27, 1999. 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 November 27, 1999 there were 1,553,913 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 \$12.31, \$14.19, and \$13.22 per share in 1999, 1998, and 1997, respectively. The following weighted average assumptions were used:

	1999	1998	1997
Risk-free interest rate	5.23%	5.63%	6.83%
Dividend yield	1.68%	1.49%	1.44%
Volatility factor	.2319	.1926	.1903
Weighted average expected life	5.98 years	5.98 years	5.97 years

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

	1999		1998		1997	
	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	734,998	\$50.0418	283,500	\$44.3125	N/A	N/A
Options granted	777,750	\$44.2329	499,000	\$52.9793	290,500	\$44.3125
Options exercised	(500)	\$44.3125	(10,339)	\$44.3125	N/A	N/A
Options canceled	(77,000)	\$50.9848	(37,163)	\$47.3729	(7,000)	\$44.3125
Unexercised options outstanding – end of year	1,435,248	\$46.8454	734,998	\$50.0418	283,500	\$44.3125
Exercisable options – end of year	355,566	\$49.1576	94,867	\$44.3125	None	N/A

The following table summarizes information about stock options outstanding at November 27, 1999:

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
\$29.9688 – \$29.9688	265,750	9.74	\$29.9688	0	\$ –
\$41.7813 – \$46.4375	280,998	7.64	\$44.5521	170,360	\$44.3125
\$52.1563 – \$52.1563	834,500	8.64	\$52.1563	155,205	\$52.1563
\$57.0938 – \$59.2188	36,000	8.51	\$58.0174	12,001	\$58.0174
\$63.2500 – \$63.2500	18,000	8.36	\$63.2500	18,000	\$63.2500
\$29.9688 – \$63.2500	1,435,248	8.64	\$46.8454	355,566	\$49.1576

On October 5, 1999, key employees were awarded 45,000 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 253 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 November 27, 1999 there were 10,205 shares which remain deferred under this program. No awards were made in fiscal 1999 and the plan has been terminated.

The amount charged to expense for all stock-based compensation plans was \$4 million, \$8 million and \$4 million in 1999, 1998 and 1997, respectively.

The pro forma effect on net income for all stock-based compensation plans if accounted for under SFAS No. 123 is \$9 million additional compensation expense or \$.09 per share in 1999 and less than \$1 million of additional expense in 1998 and 1997, respectively.

Members of the Board of Directors may elect to defer fees earned and invest them in common stock of the Company. A total of 11,410 deferred shares are payable as of November 27, 1999 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 November 27, 1999, the Board of Directors had authorized the repurchase, from time to time, of up to 19,289,067 shares of the Company's stock. The purchased shares will be used for general corporate purposes. As of November 27, 1999, a total of 18,322,467 shares had been purchased at market trading prices, of which 16,777,137 shares remain in treasury.

On December 1, 1997, the Company purchased 990,000 shares of its common stock from a trust established by a founder of the Company to facilitate the payment of the trust's federal and state taxes upon the death of the founder's widow. The purchase, totaling \$42 million, was a private transaction at a discount from market determined by an investment bank to be fair to the Company.

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

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

described in Note 13) for which it is practicable to estimate that value:

The carrying amounts of cash, cash equivalents and short-term investments, trade accounts receivable, other current assets, trade accounts payable, and accrued expenses 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 estimated fair values of the Company's debt instruments are as follows:

	November 27, 1999	
	Carrying Amount	Fair Value
Short-term debt	\$ 52	\$ 52
Long-term debt	\$302	\$294

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 risks. The Company occasionally enters into foreign currency forward contracts to hedge exposure to adverse exchange risk related to certain assets and obligations denominated in foreign currencies. The gains or losses arising from these contracts offset foreign exchange 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 on November 27, 1999 and November 28, 1998.

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 supersedes previously issued segment reporting disclosure rules and 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 segment disclosures for prior years have been restated to conform with the presentation adopted for the current year.

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 less capital charges). 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		Other (a)	Corporate and Other Expense	Consolidated
		Products	Insurance			
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 (b)	\$ (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 (c)	\$ 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 (d) (e)	\$ (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 (f)	\$ 124	\$ 21	\$ 1	\$ 1	\$ 2	\$ 149
1997						
Net Revenues	\$ 920	\$545	\$ 265	\$46	\$ –	\$1,776
Income before income taxes and capital charges	\$ 143	\$131	\$ 36	\$ 4	\$ (55)	\$ 259
Capital charges	(39)	(18)	–	(1)	58	–
Segment income	\$ 104	\$113	\$ 36	\$ 3	\$ 3	\$ 259
Assets	\$ 658	\$249	\$2,501	\$21	\$399	\$3,828
Capital expenditures	\$ 66	\$ 14	\$ 1	\$ 2	\$ 2	\$ 85
Depreciation and amortization	\$ 74	\$ 22	\$ 1	\$ 2	\$ 3	\$ 102

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

(b) 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.

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

(d) 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.

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

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

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

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:

	1999	1998	1997
Net revenues to unaffiliated customers: (a)			
United States	\$1,816	\$1,758	\$1,560
Foreign	231	243	216
Total revenues	\$2,047	\$2,001	\$1,776
Long-lived assets:			
United States	\$ 391	\$ 417	\$ 314
Foreign	68	83	141
Total long-lived assets	\$ 459	\$ 500	\$ 455

(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:

	1999	1998	1997
Income (loss) before income taxes:			
Domestic	\$201	\$370	\$272
Foreign	(6)	(77)	(13)
Total	\$195	\$293	\$259
Provision for income taxes:			
Current provision:			
Federal	\$ 79	\$ 90	\$ 99
State	11	19	13
Foreign	3	4	3
Total current provision	93	113	115
Deferred provision:			
Federal	(20)	(4)	(11)
State	(5)	—	—
Foreign	3	—	(2)
Total deferred provision	(22)	(4)	(13)
Provision for income taxes	\$ 71	\$109	\$102

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:

	1999		1998		1997	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal income tax (a)	\$68	35.0	\$103	35.0	\$90	35.0
State income tax (b)	4	2.1	12	4.1	9	3.5
Foreign income tax (c)	8	4.2	30	10.3	6	2.3
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	(9)	(4.6)	(8)	(2.8)	(3)	(1.4)
Provision for income taxes	\$71	36.7	\$109	37.0	\$102	39.4

(a) At statutory rate.

(b) Net of Federal benefit.

(c) Federal tax rate differential.

With the 1998 announcement of the 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 effect of temporary differences that give rise to the deferred tax balance sheet accounts are as follows:

	November 27, 1999		November 28, 1998	
	Non-insurance	Insurance	Non-insurance	Insurance
Deferred tax assets:				
Current:				
Inventories	\$ 6	\$ -	\$ 3	\$ -
Employee benefit accruals	3	-	3	-
Self insurance accruals	9	-	10	-
Litigation accruals	2	-	2	-
Other, net	48	5	20	5
Long-term:				
Employee benefit accruals	24	1	23	1
Amortization	-	1	-	-
Unrealized loss on investments	-	17	-	-
Deferred policy revenues	-	251	-	236
Foreign loss carryforwards and other tax attributes	11	-	9	-
Other, net	11	-	9	-
Total assets	114	275	79	242
Deferred tax liabilities:				
Current:				
Inventories	2	-	2	-
Other, net	3	-	2	-
Long-term:				
Depreciation	33	3	34	3
Amortization	2	-	2	-
Unrealized gain on investments	-	-	-	28
Benefit reserves	-	14	-	12
Deferred acquisition costs	-	175	-	160
Other, net	1	4	-	5
Total liabilities	41	196	40	208
Less valuation allowance for foreign loss and other tax attributes	(11)	-	(9)	-
Net asset	\$62	\$ 79	\$30	\$ 34

As of November 27, 1999, 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. During 1999 the Company made a deposit against the IRS' assessed liability for COLI to preclude the continuing assessment of interest charges.

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

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:

	1999	1998	1997
Rental expense	\$ (21)	\$ (21)	\$ (16)
Research and development costs (a)	\$ (47)	\$ (46)	\$ (49)
Investment income, net (b)	\$ 16	\$ 19	\$ 18

(a) Approximately \$8 million of research and development costs in 1997 relate to a discontinued business.

(b) Excludes insurance operations.

The table below indicates the minimum annual rental commitments (excluding renewable periods) aggregating \$51 million, for manufacturing facilities, warehouse distribution centers, service centers and sales offices, under noncancelable operating leases.

2000	\$17
2001	\$12
2002	\$ 8
2003	\$ 6
2004	\$ 3
2005 and beyond	\$ 5

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

	1999	1998	1997
Cash paid for:			
Income taxes	\$106	\$113	\$109
Interest	\$27	\$ 24	\$ 23
Non-cash investing and financing activities:			
Liabilities assumed from/			
incurred for the			
acquisition of businesses	\$ 1	\$ 39	\$ -
Treasury stock issued			
under stock			
compensation plans	\$ 2	\$ 1	\$ -
Accrued treasury stock			
acquisition	\$ -	\$ -	\$13

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 1999 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. The life insurance policies sold by Forethought Life Insurance Company are limited to certain long-duration policies, and, as such, are accounted for under SFAS No. 97. The benefits under these policies increase based on management's discretion and external inflationary indices. Premiums received are allocated to benefit reserves and unearned revenue. Unearned revenues are recognized over the actuarially determined life of the contract. Policy acquisition costs, consisting of commissions, policy issue expense and premium taxes, are deferred and amortized consistently with unearned revenues. Liabilities equal to policyholder account balances and amounts assessed against these balances for future insurance charges are established on the insurance contracts issued by Forethought Life Insurance Company.

Investments are predominantly U.S. Treasuries and agencies and high-grade corporate bonds with fixed maturities and 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 insure 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.

In accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," Forethought 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 insurance deferred tax assets are adjusted 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.

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	\$ 846	\$ 5	\$41	\$ 810
Corporate securities	1,329	2	24	1,307
Mutual funds	24	9	—	33
Preferred stocks	20	5	1	24
Total (a)	\$2,219	\$21	\$66	\$2,174

The amortized cost and fair value of investment securities available for sale at November 28, 1998 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	\$ 639	\$17	\$ 5	\$ 651
Corporate securities	1,274	69	13	1,330
Mutual funds	37	13	—	50
Preferred stocks	3	—	—	3
Total (a)	\$1,953	\$99	\$18	\$2,034

(a) Does not include the amortized cost of other investments carried on the balance sheet in the amount of \$137 million at November 27, 1999 and \$170 million at November 28, 1998, the carrying value of which approximates fair value.

The amortized cost and fair value of investment securities available for sale at November 27, 1999, 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	\$ 49	\$ 49
Due after 1 year through 5 years	230	226
Due after 5 years through 10 years	382	374
Due after 10 years	928	904
Mortgage-backed securities	586	564
Mutual funds	24	33
Preferred stocks	20	24
Total	\$2,219	\$2,174

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:

	1999	1998	1997
Proceeds	\$466	\$345	\$358
Realized gross gains	\$ 26	\$ 24	\$ 12
Realized gross losses	\$ 3	\$ 4	\$ 4

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

	1999	1998	1997
Investment income	\$156	\$138	\$120
Earned premium revenue	176	151	137
Net gain on sale of investments	23	20	8
Total net revenues	355	309	265
Benefits paid	81	71	63
Credited interest	145	123	111
Deferred acquisition costs			
amortized	47	39	35
Unusual charges	3	—	—
Other operating expenses	37	23	21
Income before income taxes	\$ 42	\$ 53	\$ 35

Statutory data at December 31 includes:

	1999 (unaudited)	1998	1997
Net income	\$ 38	\$ 35	\$ 32
Capital and surplus	\$234	\$153	\$144

Notes to Consolidated Financial Statements (Continued)

Hillenbrand Industries, Inc. and Subsidiaries

14. UNAUDITED QUARTERLY FINANCIAL INFORMATION

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

1998 Quarter Ended	2/28/98	5/30/98	8/29/98	11/28/98	Total Year
Net revenues	\$479	\$508	\$483	\$531	\$2,001
Gross profit	193	208	189	228	818
Net income	43	45	42	54	184
Basic and diluted net income per common share	.64	.66	.63	.80	2.73

15. CONTINGENCIES

On August 16, 1995, Kinetic Concepts, Inc., 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 Kinetic Concepts, Inc. (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 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.

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, safety, health, taxes, environmental and other matters. Management believes 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.

16. SUBSEQUENT EVENT

On January 18, 2000, the Company's Board of Directors authorized the purchase on the open market and in privately negotiated transactions, of up to an additional 5,000,000 shares of its common stock.

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.

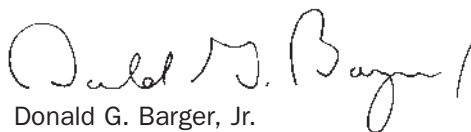
Management believes that the Company's policies, procedures and internal control systems provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with its authorization. The Company also maintains a program of internal auditing to examine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



W August Hillenbrand
Chief Executive Officer



Donald G. Barger, Jr.
Vice President and
Chief Financial 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 November 27, 1999 and November 28, 1998, and the results of their operations and their cash flows for each of the three years in the period ended November 27, 1999, in conformity with accounting principles generally accepted in the United States. 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, 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 the opinion expressed above.



PricewaterhouseCoopers LLP
Indianapolis, Indiana
January 11, 2000

Management In Depth

Hillenbrand Industries, Inc. and Subsidiaries

Officers

W August Hillenbrand, 59

Chief Executive Officer since 1989. During a 40-year Hillenbrand career, has been president, chief operating officer and executive vice president, Hill-Rom Company president, vice president, operations and assistant to the president.

Frederick W. Rockwood, 52

Named President in 1999. Formerly president and chief executive officer, The Hillenbrand Funeral Services Group, Inc. 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.

Donald G. Barger, Jr., 57

Vice President and Chief Financial Officer since 1998. Formerly vice president and chief financial officer of Worthington Industries.

Michael L. Buettner, 42

Vice President, Corporate Development since 1995. Formerly with Bausch & Lomb as staff vice president, corporate development; vice president, business development, personal products; director, corporate business development; assistant to corporate controller and manager, acquisition analysis.

David L. Robertson, 54

Named Vice President, Administration in 1999. Previously vice president, human resources. Formerly vice president, human resources for Rubbermaid, Inc.

Walter M Rosebrough, Jr., 45

Named Executive Vice President, Global Business Development in 1999. Previously president and chief executive officer, Hill-Rom Company. Formerly president and chief executive officer Support Systems International. Has been with Hillenbrand since 1982. Previously with General Motors.

George E. Brinkmoeller, 64

Vice President, Corporate Services since 1980. During his career, he has been director of corporate services and manager of affiliated operations. Formerly manager of Sheraton Hotel Corporation.

Mark R. Lanning, 45

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

Mark R. Lindenmeyer, J.D., M.D. 53

Vice President, General Counsel and Secretary since 1991. Joined Hillenbrand in 1986 as litigation and medical/legal specialist. Previously 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.

J. Cameron Moss, 43

Named Vice President, Supply Management in 1999. Previously vice president, corporate planning. Formerly with McKinsey & Company as senior engagement manager and with Robert Bosch Corporation as account manager.

Geoff W. Packwood, 59

Named Vice President, Chief Information Officer in 1999. Previously vice president, chief information officer with The Hillenbrand Funeral Services Group, Inc. since 1998. Formerly a consultant with The Thomas Group.

Martha A. Roblee, 46

Vice President, Taxes since 1999. Formerly vice president, taxes with Rubbermaid, Inc. Previously with GE Information Services and General Electric.

James D. Van De Velde, 53

Vice President, Controller, since 1991. Joined Hillenbrand in 1980 as tax director. Formerly tax manager with Price Waterhouse, now PricewaterhouseCoopers, LLP.

Thomas P. Waters, 40

Named Vice President, Continuous Improvement in 1999. Previously senior advisor, manufacturing systems group at General Motors and 10 years with Toyota Motor Corporation in Japan.

Operating Company Presidents

Richard N. Coffin, 53

Named President and Chief Executive Officer, Forethought Financial Services, Inc., in 1999. Formerly executive vice president and chief operating officer since 1997. Previously vice president, finance and chief financial officer. Has been with Hillenbrand since 1979.

David J. Hirt, 53

President and Chief Executive Officer, Batesville Casket Company, Inc., since 1989. Previously senior vice president of sales and marketing for Batesville Casket Company and has been with Hillenbrand since 1968.

Robert J. Tennison, 53

Named President and Chief Executive Officer, Hill-Rom Company, Inc., in 1999. Formerly vice president, continuous improvement with Hillenbrand Industries since 1996. Previously with Donnelly Corporation as senior vice president, operations and with Hennessy Industries as president.

Board of Directors

Daniel A. Hillenbrand, 76

Chairman of the Board
Hillenbrand Industries
Batesville, IN
Board Member Since 1969
1,2,3,4,5

Lawrence R. Burtschy, 63

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

Peter F. Coffaro, 71

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., 68

Partner
Hughes Hubbard & Reed
Attorneys-at-Law
New York, NY
Board Member Since 1974
3,4,5

Leonard Granoff, 73

President
Granoff Associates
Providence, RI
Board Member Since 1978

John C. Hancock, 70

Consultant
Fort Myers, FL
Board Member Since 1980
4,5

George M. Hillenbrand, II, 60

Personal Investments
Batesville, IN
Board Member Since 1986
1,2

John A. Hillenbrand, II, 68

Personal Investments
Batesville, IN
Board Member Since 1972
1,2

Ray J. Hillenbrand, 65

Personal Investments
Rapid City, SD
Board Member Since 1970
1,2

W August Hillenbrand, 59

Chief Executive Officer
Hillenbrand Industries
Batesville, IN
Board Member Since 1972
1,2,4

Frederick W. Rockwood, 52

President
Hillenbrand Industries
Batesville, IN
Board Member Since Dec. 1999

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 Service

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, Harris Trust and Savings Bank. 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.

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:

Harris Trust and Savings Bank
311 West Monroe Street
P.O. Box A3504
Chicago, Illinois 60690-3504
(312) 360-5100

Annual Meeting

The annual shareholders' meeting of Hillenbrand Industries, Inc. will be held on Tuesday, April 11, 2000, at 10:00 a.m. (EST), at:

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

Corporate Site on the World Wide Web

www.hillenbrand.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)

40

30

20

10

0

1971

1999

Stock Price Range

(high and low in dollars)

70

60

50

40

30

20

10

0

1971

1999

1999 Quarterly Stock Performance

(high and low in dollars)

70

60

50

40

30

20

10

0

1st

2nd

3rd

4th

1998 Quarterly Stock Performance

(high and low in dollars)

70

60

50

40

30

20

10

0

1st

2nd

3rd

4th