

2002

HEIDRICK & STRUGGLES

Annual Report to Shareholders
(including Annual Report on Form 10-K)

Message to Shareholders

The world continued to be a very uncertain place in 2002, as soft economies and geopolitical tensions held business confidence at low levels. Optimism faded as the year progressed. Amid this environment, Heidrick & Struggles devoted significant attention to the structural transition of the firm that began in 2001. We substantially reduced our costs to scale the business more closely to current economic realities and we repositioned ourselves to focus on the premium market. But those are not the only headlines for 2002. We also celebrated a number of notable achievements of which we are justifiably proud:

- We were profitable in 2002, on a pro forma basis, despite a 23% decline in our net revenue.
- We ended the year with \$110 million of cash on our balance sheet – more than we had at the beginning of the year.
- We bolstered our consultant retention by improving the rate of payout to those who earned bonuses. Voluntary turnover remained below 5 percent.
- We continued to strengthen our management team. During the year, the management team was restructured and de-layered, with additions of a new chief financial officer, a new chief information officer, a new general counsel, a new human resources team, and new leadership in every region of the world.
- We invested in several initiatives that are integral to achieving our long-term objectives. These investments included enhancing our complementary Leadership Services offerings, additional training in account management, hiring 30 experienced consultants, and establishing a joint venture in China to formalize and expand our commitment to that market.
- We completed the globalization of both our search and financial management technology platforms.

There is much important detail available in our 2002 Form 10-K, which constitutes our annual report to shareholders, and in our proxy statement, which we have recently filed with the U.S. Securities and Exchange Commission. We encourage you to read both documents carefully and thoroughly.

Our 2002 information deserves broader context to provide a better understanding of the actions we have taken – as well as our thoughts and plans for the future. In very many ways,

while drawing on the best of our heritage, we are a new firm with a new shape and a new structure. We remain intently focused on quality service to clients as we help them build the best leadership teams, but we are leaner and more nimble than before.

Dramatic changes were necessary for us because we had aggressively expanded in 1999 and 2000 during unprecedented, heady days of growth – driven in large part by the Internet boom. As the industry contracted as a result of the technology bust and the worldwide economic slowdown, we had more work to do than many others in order to bring our cost structure in line with realistic revenue expectations.

Since June of 2001 we have taken actions that, when considered in their entirety, are profound in scope. We lowered expenses by more than \$200 million. We reduced our workforce by more than 40 percent. We also have closed, consolidated or converted to affiliate status nearly 30 locations and now operate from 52 offices in principal cities of the world.

Under such circumstances, inevitably, a sizeable proportion of the management team's focus has been internal. It was necessary for us to instill greater financial discipline in the organization and prune the tree to foster new growth. Barring a cataclysmic drop in the market, we have completed our large-scale restructuring programs and pared ourselves down to a base level of infrastructure to support our global operations.

Having fundamentally restructured ourselves we will now invest, prudently of course, in our people and in those programs that drive growth over the long term. This is critical to our success. It is now time to direct all our energies outward – to clients, and to revenue enhancement opportunities.

In April 2003, Chairman and Chief Executive Officer Piers Marmion resigned as CEO in order to transfer leadership authority to a new management team that can drive growth in the business. To ensure a smooth transition of leadership, Marmion will remain as Chairman until we identify a successor. In the interim, Senior Chairman Gerard R. Roche will serve as acting CEO.

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These management changes, however, do not represent a shift in our company's direction. We remain committed to our strategic initiatives:

Expand Aggressively Our Share of Senior-Level Search, Supported By Our Capabilities in Complementary Leadership Services

We are concentrating our resources at the senior level of client organizations. Within our core executive search business, we have created a more organized, collaborative team to drive our share of board and CEO work. In fact, board searches conducted by Heidrick & Struggles in 2002 increased significantly over 2001 – and continue to grow. To capitalize on that momentum, in 2003 we intend to invest the bulk of our available resources in this top end market. We are reinforcing our position as senior-level advisors by offering complementary high-level talent assessment and developmental services to enhance management effectiveness. This is supported through our alliance with Lore International Institute, specialists in executive coaching, team development, and education services.

Being the best in executive search continues to be our primary focus but, with increasing frequency, clients look to us for top management solutions beyond executive search, particularly talent assessment and development. As a consequence of being responsive to those needs, we targeted investments in our Leadership Services business to build awareness of our offerings both internally – among our consultants, who represent us in the market – and externally, among our clients. The early results are quite positive; in fact, revenue in 2002 from our complementary Leadership Services doubled from 2001, and our goals for the year ahead are equally ambitious.

Build Broader, Deeper Client Relationships

Although we already have many durable relationships with clients, we are beginning to institutionalize this capability through account management training, new techniques in

business development, and knowledge management. Our ability to support clients through a variety of related services is a critical element of our desire to form broader, deeper relationships with them.

Attract and Retain the Best Consultants

Because of our concentration on serving the needs of top-level executives, attracting and retaining the best consultants is more critical than ever. Even as we reduce our overall consultant base, we are in a hiring mode. We believe that the talent in our industry will continue to consolidate, and opportunities to hire high quality people in the executive-level leadership services space will likely increase. We will continue to upgrade and invest in our people – and ensure that we have competitive advantage through our people in all key markets. Retention of those consultants who contribute consistently to the firm continues to be a priority. One reason we aggressively reduced search capacity was to ensure that our consultants are competitively paid in this environment.

At the heart of all of these actions is the need to create a fresh and positive culture built around values that are magnetic to the finest consultants and that cultivate an environment in which we hold each other accountable for exceptional client service. We are driving cultural changes by drawing on the best of our heritage, coupled with new ideas.

Improve Profitability and Cash Flow

We are committed to improving profitability and cash flow and, over the longer term, this will serve as the financial scorecard for our progress in the three initiatives described above. As stated previously, we have made significant progress in realigning our cost structure. While some work remains, we believe the heavy lifting is behind us. We will now focus our energies on revenue enhancement opportunities and on market penetration, identifying unique advantages that will allow us to win the hearts and minds of clients.

Every indication suggests that 2003 will be another tough year in the business world. We are taking a confident but cautious approach, with a firm resolve to protect and enhance our future. Despite the industry weakness of the past two years, we continue to believe that we participate in a growth industry, over the longer term, because the fundamentals of our business remain strong:

- A shortage of leadership and management talent will exist for the foreseeable future as demand outstrips supply.
- High-caliber talent will become more aspirant and more mobile as the economy improves. People tend to be more risk averse in a poor economy but, as confidence in market conditions improves, there will be more movement of talent.
- CEO and CFO tenures are at an all-time low, thereby creating vacant positions more frequently than in the past.
- The focus on corporate governance will affect the composition of boards and create search opportunities.

Even as we celebrate our 50th anniversary in 2003, pausing to reflect on our great history and on the values that have established Heidrick & Struggles as among the most respected firms in our industry, we clearly know that now is the time to begin building for our next 50 years.

Safe Harbor Statement

The 2002 Message to Shareholders contains forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; further deterioration of the economies in the United States, Europe, or elsewhere; social or political instability in overseas markets; price competition; an inability to achieve the planned cost savings from our cost-reduction initiatives; an inability to sublease or assign unused office space; our ability to generate profits in order to ensure that our deferred tax assets are realizable; and delays in the development and/or implementation of new technology and systems. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

2002 Form 10-K

10-K

Shareholder Information

Corporate Headquarters

Heidrick & Struggles International, Inc.
233 South Wacker Drive, Suite 4200
Chicago, Illinois 60606-6303
312-496-1200
www.heidrick.com

Annual Meeting

The annual meeting of shareholders will be held at 9:00 a.m. eastern time on Wednesday, May 21, 2003, at the Harvard Club of New York City, 27 W. 44th Street (between 5th and 6th Avenues), New York, New York, 10036-6645.

Transfer Agent and Registrar

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
888-213-0965

Shareholders can obtain account information through Investor Service Direct at www.melloninvestor.com.

Investor Contact

Shareholders, analysts and investors should contact the Investor Relations Department at the corporate headquarters address or through our website at www.heidrick.com.

S.E.C. Filings and Investor Information

Filings with the Securities and Exchange Commission and other investor information are available through our website or upon written request to the Investor Relations Department.

Exchange Listing

Heidrick & Struggles International, Inc.'s common stock is listed on the Nasdaq Stock Market under the symbol HSII.

About Heidrick & Struggles International, Inc.

Heidrick & Struggles International, Inc. is the world's premier provider of executive search and leadership consulting services. Currently, approximately 1,400 Heidrick & Struggles search professionals and employees operate from locations primarily in North America, Latin America, Europe, and Asia Pacific. For 50 years, Heidrick & Struggles has specialized in chief executive, board member and senior-level management search assignments for a broad spectrum of clients: multi-national corporations, mid-cap and start-up companies, nonprofit entities, educational institutions, foundations, associations and governmental units. The company is expanding its range of complementary services to offer solutions to senior management teams for their leadership needs, including recruitment of emerging talent, executive assessment, interim executive placement, and professional development.

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