

HEIDRICK & STRUGGLES

2001

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

MESSAGE TO SHAREHOLDERS

To Our Shareholders,

By almost any standard, business conditions over the past two years have been unusual. After nearly a decade of annual industry growth in the 20 percent range—culminating in an even stronger 2000—Heidrick & Struggles and other professional services organizations experienced a significant downturn in 2001. These circumstances were dramatic and unprecedented, sealed by the events of September 11. Consequently, our twelve-month consolidated 2001 revenue was down 23 percent to \$455.5 million from \$594.4 million in 2000, and we reported a loss for the year.

Further information is available in our 2001 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. I encourage you to read both documents thoroughly and carefully.

Since the middle of 2001, we have sought to balance our costs in line with reduced levels of revenue while maintaining sufficient capacity to respond quickly to an increase in demand as the economy recovers. In the final quarter of 2001, under a new management team, we announced our intention to transform Heidrick & Struggles into a leaner, more focused, more client-driven organization. We began our cost reduction efforts with a thorough analysis of our business model and cost structure to identify inefficiencies that crept into our operations over the years. We looked at a decade's worth of business assumptions that no longer seemed appropriate. Then we took aggressive action.

During 2001 we reduced our global workforce by more than 25 percent, emphasizing non-revenue-producing staff. Furthermore, we simplified our structure by eliminating numerous management roles while increasing the accountability for the fundamentals of running a good business—service quality, development of people, and financial performance. We flattened the organization to bring managers closer to clients and to one another. Finally, we consolidated or closed offices in approximately 20 locations, to concentrate our resources in major commercial centers.

While we have taken significant actions to reallocate resources and to reduce costs during 2001, our focus extends beyond simple cost-cutting measures. We reshaped the organization because we want to maintain the muscle for future growth and to continue to invest in strengthening ourselves. We intend to emerge stronger and with better profit potential.

Above all, our vision is our inspiration: We help our clients build the best leadership teams in the world. Inherent in this vision is a commitment to build around the best of our heritage, to harness our capabilities better, to enrich our proposition, and to be driven by being the best at what we do. Our dedication to professional excellence—serving our clients with the highest level of quality—is the hallmark of everything we do and everything we care about, and we consider it a fundamental driver in our route to growth.

In support of our vision, we developed four strategic priorities to drive our business performance. These priorities influence our actions today, and serve as the roadmap for Heidrick & Struggles over the longer term:

- Provide unprecedented client value,
- Achieve new levels of profitability,
- Create a truly global, connected organization, and,
- Maintain a culture that attracts and retains the best people.

PROVIDE UNPRECEDENTED CLIENT VALUE

Heidrick & Struggles is renowned for superior executive search. This is what we have done, and done very well, for nearly half a century. Being the world's finest executive search firm is at the center of all our ambitions, and it is the corridor to all other growth opportunities.

The pinnacle of our business is our board director and CEO practice—what we call “Working at the Top.” Concentrating here, we enjoy access to and influence with key decision makers throughout the world. While client relationships usually begin at the top, we can fully leverage our access and influence by building broader and deeper client relationships. Over time, true client partnerships evolve as we develop intimate knowledge of their business and culture. At that point, we can tailor our advice and services to their specific needs, thus creating real value for that client. Developing much stronger client relationships that extend across time, geography and function is a fundamental goal. Our reorganization is designed to facilitate this.

Expanding our scope of services beyond executive search is a critical element in building strong relationships. We have completed the integration of LeadersOnline, our mid-level search capability, into the core business. As Heidrick & Struggles Management Search, it will function as a specialty

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practice helping clients identify high potential talent. This new designation assures clients of the Heidrick & Struggles quality, professionalism and service they have come to expect.

Under the aegis of our Leadership Services practice, we are carefully migrating toward integrated, high-level advisory services alongside—and in support of—our search business. These include executive assessment, coaching, and interim executive placement. Such complementary services enrich and deepen the relationship we are able to develop with clients and the world of business talent.

ACHIEVE NEW LEVELS OF PROFITABILITY

Careful attention to cost control is now systemic at Heidrick & Struggles. Although we reduced our cost base by approximately \$100 million in 2001, we acknowledge that further work must be done, and, in fact, it continues across the firm, as part of a constant vigil on efficiency.

A primary component of our costs is compensation. We redesigned our consultant compensation plans to ensure alignment with the company's goals and to introduce a greater element of flexibility into our cost structure. We also have restructured management compensation to focus on profitability, thereby tying our interests with those of our shareholders.

CREATE A TRULY GLOBAL, CONNECTED ORGANIZATION

We are creating a seamless, boundary-free organization to serve our clients efficiently and effectively whenever and wherever they need us. Now more than ever, we are focused on uniting our unmatched set of global capabilities and diverse talents into a single, potent force, with our industry sector practices becoming increasingly influential.

Technology is at the heart of linking the organization and re-engineering those processes that will be critical to a global, information-rich organization like Heidrick & Struggles. As such, we will continue investing in our global search system, our financial management and reporting system, and the development of a broad-based knowledge management system supporting all aspects of our business.

Over time, we believe technology- and process-based changes will improve search quality and productivity and have the potential to grow our margins. We are experimenting with particular changes even today.

MAINTAIN A CULTURE THAT ATTRACTS AND RETAINS THE BEST PEOPLE

Our final priority is fundamental to any professional services company. Top quality professionals are the drivers of our success. It is imperative that we create and sustain an engaging, challenging atmosphere where the finest consultants in the search profession can flourish.

Collective behavior shapes the culture of any firm and we aim to emphasize the best aspects of our culture and combine them with new behaviors critical to fulfilling our strategic priorities. Here, we will align the interests of our employees with those of our shareholders. We believe our top consultants and management must have some equity in the firm—instilling the pride that typically accompanies such ownership.

And we have adjusted our compensation plans, in part to ensure that those who contribute most to the firm's success will prosper. Furthermore, the increased weight of qualitative measures in consultant compensation will ensure that desired behaviors—professional excellence, sharing of work, mentoring tomorrow's stars, and developing major accounts—are recognized financially.

FINANCIAL GOALS

The ultimate gauge of our success, of course, will be financial in nature. Over the long term, we have objectives for certain measures:

- Our goal is to have operating margins in the double digits by 2004.
- We believe we can reduce the ratio of salaries and employee benefits to revenue while protecting the compensation for our top performers. Our goal is to lower this ratio to the 60 to 62 percent range within the next several years. We intend to reach our goal through productivity enhancements leading to a reduction in the number of people in non-client-facing roles, not by cutting compensation for those who drive our business.
- While it is difficult to put a specific growth rate on revenue, we do intend to grow—but not just for growth's sake. Growth will be as a consequence of our being the best at what we do, and the opening up of new service avenues. Leadership is the principal source of corporate

competitiveness and we believe the industry will return to growth, in time, because a basic shortage of leadership talent will exist for years to come.

I would also add that cash is the lifeblood of any business and we will continue to use our cash wisely. As we soon move back to profitability, we expect to return to generating positive cash flow.

CORPORATE GOVERNANCE

As corporate advisors ourselves, it is critical that we are seen as a bastion of good corporate governance. The centerpiece of this definition is a board comprised of a majority of independent directors and we plan to evolve our board with that goal in mind. Recently we named two new independent directors to our board: Philip A. Laskawy, recently retired Chairman and CEO of Ernst & Young, and Richard I. Beattie, Chairman of Simpson Thacher & Bartlett's Executive Committee. Both are experienced executives who bring to us a strong commitment to excellent corporate governance.

The steps to reshape Heidrick & Struggles as leaner, more focused, and fully committed to superior client service do not alter the essence of the firm. Our passion for quality and professional excellence, which is infused throughout the firm, is a primary competitive differentiator for us. We believe it will drive our growth in the months and years to come. As we balance the realities of today's marketplace with the need to be prepared for tomorrow's growth, our collective vision for Heidrick & Struggles is unwavering: We help our clients build the best leadership teams in the world.



Piers Marmion
Chairman and Chief Executive Officer

SAFE HARBOR STATEMENT

The 2001 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; a continuing economic downturn in the United States or a material economic downturn in Europe or elsewhere, or social or political instability in overseas markets; bad debt write-offs far in excess of allowances for doubtful accounts; losses in our venture capital investments; an inability to achieve the planned cost savings from our restructuring initiatives; 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.

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

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

INVESTOR CONTACT

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

ANNUAL MEETING

The annual meeting of shareholders will be held at 9:00 a.m. Central Time on Thursday, June 6, 2002, at the Metropolitan Club, 66th floor, 233 South Wacker Drive, Chicago, Illinois, 60606.

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.

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.

EXCHANGE LISTING

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

ABOUT HEIDRICK & STRUGGLES INTERNATIONAL, INC.

Heidrick & Struggles International, Inc. is the world's premier provider of executive-level search and leadership consulting services. Currently, approximately 1,700 Heidrick & Struggles search professionals and employees operate from locations primarily in North America, Latin America, Europe, and Asia Pacific. For nearly 50 years, Heidrick & Struggles Executive Search has specialized in chief executive, board member and senior-level management 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. We are expanding our 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.

BOARD OF DIRECTORS

PIERS MARMION

Chairman and Chief Executive Officer
Heidrick & Struggles International

DAVID C. ANDERSON

President and Chief Operating Officer
Heidrick & Struggles International

RICHARD I. BEATTIE

Chairman, Executive Committee
Simpson Thacher & Bartlett

THOMAS J. FRIEL

Chairman, International
Technology Practice
Heidrick & Struggles International

ROBERT E. KNOWLING, JR.

Chairman and Chief Executive Officer
Internet Access Technologies, Inc.

PHILIP A. LASKAWY

Retired Chairman and
Chief Executive Officer
Ernst & Young

BENGT LEJSVED

Regional Managing Partner,
Northern Europe and New Markets
and Managing Partner, Europe
Heidrick & Struggles International

DR. JÜRGEN B. MÜLDER

Chairman
Heidrick & Struggles Executive Search

GERARD R. ROCHE

Senior Chairman
Heidrick & Struggles International

ROBERT W. SHAW

Chairman and Chief Executive Officer
ArcSight, Inc.

CARLENE M. ZIEGLER

Co-Founder and Managing Partner
Artisan Partners Limited Partnership

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