

HEIDRICK & STRUGGLES

ANNUAL REPORT \ FORM 10-K

Building the best
leadership teams
in the world
2003

To Our Shareholders

Heidrick & Struggles celebrated its 50th Anniversary in 2003 and, as pioneers in the executive search industry, this was an opportunity to reflect on the partnership values that have sustained us during our great history. Yet even as we marked this illustrious milestone, we're also eager to continue building for our future. It's no secret that 2003 was the third in a string of difficult years for our company, and the worldwide economic environment continued to be weak for much of the year.

For the year, our consolidated net revenue was \$317.9 million, a decrease of 9 percent from \$350.7 million in 2002. However, revenue from the search work and leadership services we provide at the top levels of client organizations was strong throughout the year. We continued to win our share of CEO search assignments, and our board-level services are in high demand.

Our balance sheet continues to be very healthy. We were cash flow positive in 2003, despite a significant amount of costly restructuring activity, and we finished the year with \$119.3 million cash on the balance sheet and no debt.

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MESSAGE TO SHAREHOLDERS, CONTINUED

Our profitability is improving, as the positive impact of earlier cost reduction efforts takes hold. We expect that those major restructuring activities now are behind us.

(You will find additional important information in our 2003 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.)

There are signs that the economy is improving. We first saw evidence of increased business confidence during the fall and our net revenue for the 2003 fourth quarter exceeded the top end of our expectations. In fact, it was our biggest revenue quarter of the year – in a quarter that usually is seasonally soft – and we expect that this can provide us with some welcome momentum coming into 2004. We intend to capitalize on this momentum by attacking the market in a coordinated but aggressive manner, and serving clients with even greater attention and focus than before.

Professional services firms increasingly have migrated to organizing around clients and client needs. Although client focus always has been integral to our strategy, we are moving to a more formal management structure in this area. It includes some faces that are new and some that are familiar.

On the corporate governance side, there was some turnover on our Board of Directors. As part of that, we have two new independent directors: John A. Fazio, former Senior General Practice Partner for PricewaterhouseCoopers, and Douglas C. Yearley, Chairman Emeritus of Phelps Dodge Corporation. Both are seasoned executives with extensive experience and broad global exposure. Our Board now includes a total of six members, and is comprised of a majority of independent members, each of whom is an active participant on one or more Board Committees.

In September we convened a worldwide meeting of our Partners and Principals – our first such meeting in four years. By sharing knowledge and building global relationships face to face, I am confident the business development opportunities generated there will bear fruit for us. And it's my strong sense that, as a unified group, we left the meeting focused and enthusiastic about our future.

Following the worldwide meeting, we embarked on a comprehensive review of our strategy and structure through a range of initiatives that examined every aspect of our firm. This work involved teams from around the world, supported by a few selected outside experts. Most of this work was completed by year-end and, in some areas, we have made decisions and begun execution. Most of the changes will be implemented during 2004.

It is our intention that this strategy and structure work will fundamentally improve our ability to pursue the two goals established very soon after I became Chairman and CEO of Heidrick & Struggles in June:

- Run and grow a profitable, efficient, and quality business that serves our clients and provides an attractive return to our shareholders.
- Strengthen our partnership among all the people of Heidrick & Struggles.

One of the critical initiatives on our agenda was defining our “Go to Market” approach because so many other initiatives were dependent to some degree on the decisions made about this central piece of our strategy.

As we further clarify our “Go to Market” approach, however, we do not intend to stray from our key strengths. Rather, we will build on them, recognizing the changing needs of our clients. We have identified three types of client needs that we can and should serve, and our management is now structured around these three strategic thrusts. For the most part, serving these client needs is not new for us, but they are at different levels of business maturity with Heidrick & Struggles.

The first is searches and services for boards of directors, including searches for new CEOs. Working at the top – as we call it – is where our reputation is built. The second is searches and services supporting CEOs and the entire C-suite of executives. The third – and this is the area with the greatest potential – is serving selected key client accounts with a range of services they need to build effective leadership teams. We have demonstrated that we can leverage our entire toolkit of leadership expertise to create tailored solutions that ensure even greater value is delivered to clients. In addition, doing more work for fewer clients – key accounts – can be a more profitable business model. And it further embeds the client within the firm, rather than maintaining a relationship that is primarily dependent upon one or two consultants.

These three strategic thrusts will be our growth engine, building on the core base of search business that defines a majority of our work. We will increasingly emphasize and invest in these three thrusts for several reasons:

- Working at the top is the most challenging and fulfilling professionally.
- Working at the top enables us to develop strong, long-term relationships with clients.
- These three strategic thrusts provide the most profitable types of work we can do.
- Working collaboratively in teams is more profitable than solo work and builds our global partnership.

To be clear, we are not saying that all of our work should be in key accounts, but we certainly should be generating at least 50 percent of our revenue from such accounts. We will not get there overnight, but we believe that is achievable within three years.

As indicated above, we have put in place an organization structure that centers on the client. It ensures that there is specific management responsibility for delivering on each of these client needs and for building better internal linkages across the entire company.

Over the past several years our primary focus has been on bringing our cost structure in line with our revenue level. While this was both necessary and painful, we believe we have now accomplished what we set out to do. Managing costs will continue to be an integral part of our culture. But, after several years of stripping out much of our discretionary spending, we must return to investing in activities that are critical to our growing again, and to the firm's long-term success.

SAFE HARBOR STATEMENT

In 2004, we intend to invest in business-building activities:

- We are making targeted spends in marketing and account development.
- We are making certain that our research and knowledge management capabilities are the best in our profession.
- We are enhancing our training programs, which are vital in a professional services organization.
- We are investing in quality initiatives.
- And we will also make a modest number of what we call investment hires – individuals who can contribute importantly to the future, but who require some time to ramp up.

Within each of these categories, we are prioritizing our spending requirements so that we can release the appropriate investment dollars based in part on our revenue performance during the year.

From a budget planning perspective, we have made the assumption that the economy will continue to look modestly better this year. Under that scenario we would anticipate net revenue growing in the mid-single digits in 2004, with operating margins in the 5 to 6 percent range. This margin expansion factors in the investments discussed above that are critical to our long-term success.

As a company, we are very pleased to be entering 2004 with clear momentum, and on a stronger footing than in the past few years. With much of our strategic work completed, this year will be about execution and building our business. We recognize, however, that we live in a world that can shift economically or geopolitically on a dime, so we will make certain to retain a cost structure that has some flexibility in it.

After completing our first 50 years in business, we have much to look forward to during the next 50. The Heidrick & Struggles team is energized and optimistic – as well happy to be putting the difficulties of the past three years behind us. The economic environment is a bit friendlier and we are implementing a plan that formalizes the client focus that has always been so vital to our reputation and success.

We thank you for your continued support of Heidrick & Struggles.



Thomas J. Friel
Chairman and Chief Executive Officer

The 2003 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 weakening of the economies in the United States, Europe, or elsewhere; social or political instability in markets where we operate; 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 realize our deferred tax assets; an impairment of our goodwill and other intangible assets; and delays in the development and/or implementation of new technology and systems. Our reports filed with the U.S. Securities and Exchange Commission also include information on factors that may affect the outcome of forward-looking statements. 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

ANNUAL MEETING

The annual meeting of shareholders will be held at 9:00 a.m. eastern time on Wednesday, May 12, 2004, at the InterContinental The Barclay New York, 111 E. 48th Street, New York, New York, 10017.

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.

2003 FORM 10-K

BOARD OF DIRECTORS

Richard I. Beattie *
Chairman, Executive Committee
Simpson Thacher & Bartlett

John A. Fazio *
Former Senior General Practice Partner
PricewaterhouseCoopers

Thomas J. Friel
Chairman and Chief Executive Officer
Heidrick & Struggles

Robert E. Knowling, Jr. *
Chief Executive Officer
New York City Leadership Academy

Gerard R. Roche
Senior Chairman
Heidrick & Struggles

Douglas C. Yearley *
Chairman Emeritus
Phelps Dodge Corporation

* *Independent director*

Heidrick & Struggles is the world's premiere provider of executive search and leadership consulting services; at our core, we are in the business of serving our clients as a corporate advisor. As such, it is critical that we are seen as an example of good corporate governance. Our Board of Directors is comprised of a majority of independent members, each of whom is an active participant on one or more Board Committees.

AUDIT COMMITTEE

John A. Fazio (Chair)
Robert E. Knowling, Jr.

NOMINATING AND BOARD COMMITTEE

Richard I. Beattie (Chair)
Douglas C. Yearley

COMPENSATION COMMITTEE

Robert E. Knowling, Jr. (Chair)
Richard I. Beattie
Douglas C. Yearley

ABOUT HEIDRICK & STRUGGLES INTERNATIONAL, INC.

Heidrick & Struggles provides exceptional service and expertise to deliver effective leadership solutions for clients.

We are the world's premier provider of senior-level executive search and leadership development services, including executive assessment and professional development.

For 50 years, we have focused on quality service and built strong leadership teams through our relationships with clients and individuals worldwide. Today, Heidrick & Struggles leadership experts operate from principal business centers in North America, Latin America, Europe and Asia Pacific.

Building the best leadership teams in the world



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