

# **Sustainable Growth:**

New applications, new locations, new technologies

# Stepan at a Glance

## Surfactants

A surfactant is a surface active agent that changes a liquid's surface tension. Surfactants are the basic cleaning agent in consumer and industrial cleaning products such as detergents for washing clothes, dishes, carpets, floors, walls, as well as shampoos, body washes, toothpastes and cosmetics. Other applications include fabric softeners, biocides, lubricating ingredients, emulsifiers for spreading agricultural products, and industrial applications such as latex systems, plastics and composites.

Total surfactant sales represent 72 percent of Stepan's 2012 sales or \$1,306,000,000 versus \$1,362,000,000 in 2011. Sales volume rose by 2 percent. The decline in sales was due to a 6 percent decrease in average selling prices. The decrease in selling price reflected lower raw material costs and the unfavorable impact of foreign currency translation.

## Polymers

The polymer product group includes polyurethane polyols and phthalic anhydride. Polyurethane polyols are used in the manufacture of rigid foam for thermal insulation in the construction industry. Stepan's polyols are also a base raw material for coatings, adhesives, sealants and elastomers. Phthalic anhydride is used in polyester resins, alkyd resins, and plasticizers for applications in construction materials and components of automotive, boating, and other consumer products. Approximately 42 percent of the Company's phthalic anhydride is utilized internally in the production of our polyol products.

Polymer sales represent 24 percent of 2012 sales, or \$424,000,000 versus \$422,000,000 in 2011, an increase of 1 percent. Higher sales volume led to the increase in net sales.

## Specialty Products

Specialty products include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industry.

Sales for specialty products for 2012 were \$74,000,000 versus \$60,000,000 for 2011. Specialty products represent 4 percent of net sales.

## Production Facilities

Millsdale, Illinois  
Anaheim, California  
Fieldsboro, New Jersey  
Maywood, New Jersey  
Winder, Georgia  
Longford Mills, Ontario, Canada  
Matamoros, Mexico  
Manizales, Colombia  
Vespasiano, Brazil  
Stalybridge, United Kingdom  
Voreppe, France  
Wesseling, Germany  
Wroclaw, Poland  
Singapore  
Bauan, Batangas, Philippines  
Nanjing, China (joint venture)

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# Financial Highlights

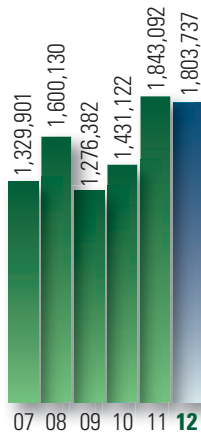
(In thousands, except per share and stockholder amounts)	2012	2011	% Change (2012 vs. 2011)	2010	% Change (2011 vs. 2010)
Net Sales	<b>\$ 1,803,737</b>	\$ 1,843,092	- 2	\$ 1,431,122	+ 29
Net Income Attributable to Stepan Company	<b>79,396</b>	71,976	+10	65,427	+ 10
Per Diluted Share	<b>3.49</b>	3.21	+ 9	2.95	+ 9
Percent of Net Sales	4.4%	3.9%	+ 13	4.6%	- 15
Percent Return on Average Equity	<b>18.0%</b>	19.2%	- 6	20.5%	- 6
Depreciation and Amortization	<b>51,294</b>	47,099	+ 9	40,351	+ 17
Capital Expenditures	<b>83,159</b>	83,166	—	73,748	+ 13
Dividends Per Common Share	<b>\$ 0.58</b>	\$0.53	+ 9	\$0.49	+ 8
Working Capital	<b>275,911</b>	246,516	+ 12	222,199	+11
Current Ratio	<b>2.1</b>	2.1	—	2.1	—
Long-Term Debt, Less Current Maturities	<b>149,564</b>	164,967	- 9	159,963	+ 3
Total Stepan Company Stockholders' Equity	<b>478,985</b>	401,211	+ 19	349,491	+ 15
Total Stepan Company Stockholders' Equity Per Share	<b>20.81</b>	18.51	+ 12	16.30	+ 14
Average Common Shares Outstanding (Diluted)	<b>22,730</b>	22,440	+ 1	22,180	+ 1
Number of Stockholders	<b>1,483</b>	1,490	—	1,348	+ 11

## Stock Information\*

New York Stock Exchange, symbol SCL	2012	2011
Stock Price Range	<b>\$ 38.05–55.90</b>	\$ 31.33–41.83
Dividend (Common)	<b>\$ 0.58</b>	\$ 0.53
Dividend (Preferred)	<b>\$ 1.375</b>	\$ 1.375
Earnings Per Diluted Share	<b>\$ 3.49</b>	\$ 3.21
Return on Equity	<b>18%</b>	19%
Book Value	<b>\$ 20.81</b>	\$ 18.51
Shares Outstanding	<b>21,965,972</b>	20,492,664

\*All share and per share data reflect the effects of the two-for-one common stock split effective on December 14, 2012.

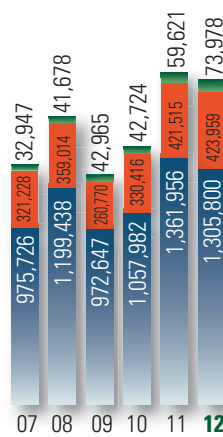
Information in this annual report contains forward looking statements which are not historical facts. These statements involve risks and uncertainties that could cause actual results to differ materially, including without limitation, cash flow, prospects for our foreign operations, and certain global and regional economic conditions and probability of future acquisitions and new products, and factors detailed in the Company's Securities and Exchange Commission filings.



### Net Sales

(dollars in thousands)

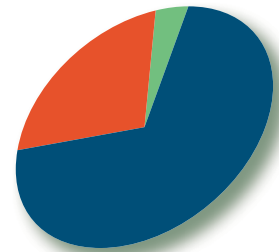
Compound Annual Growth  
Five Years +6



### Segment Sales

(dollars in thousands)

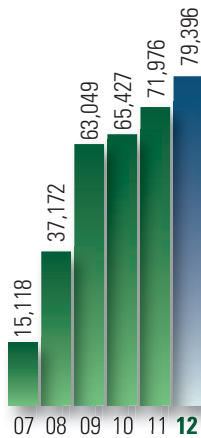
■ Surfactants  
■ Polymers  
■ Specialty Products



### 2012 Segment Sales

(dollars in thousands)

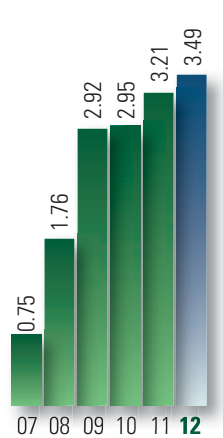
■ Surfactants \$1,305,800  
■ Polymers \$423,959  
■ Specialty Products \$73,978



### Net Income Attributable to Stepan Company

(dollars in thousands)

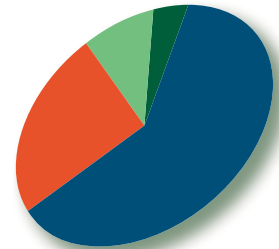
Compound Annual Growth  
Five Years +39



### Net Income Attributable to Stepan Company per Common Share (Diluted)

(dollars)

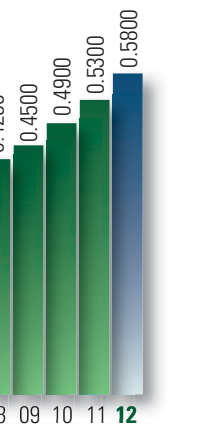
Compound Annual Growth  
Five Years +36



### 2012 Global Sales

(dollars in thousands)

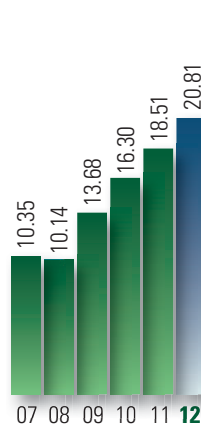
■ North America \$1,130,246  
■ Europe \$438,365  
■ Latin America \$157,436  
■ Asia-Pacific \$77,690



### Dividends Per Common Share

(dollars)

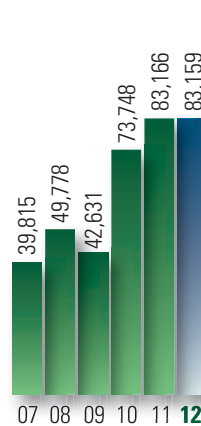
Compound Annual Growth  
Five Years +7



### Total Stepan Company Equity Per Share

(dollars)

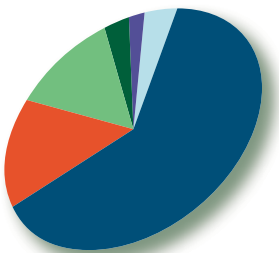
Compound Annual Growth  
Five Years +15



### Capital Expenditures

(dollars in thousands)

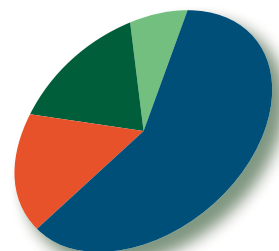
Compound Annual Growth  
Five Years +16



### 2012 Sales Dollar Distribution

(dollars in thousands)

■ Material \$1,160,919 64%  
■ Other Expenses \$265,439 15%  
■ Payroll & Fringes \$210,654 12%  
■ Depreciation & Amortization \$51,294 3%  
■ Income Taxes \$36,035 2%  
■ Net Income \$79,396 4%



### 2012 Long Lived Assets

(dollars in thousands)

■ North America \$263,491  
■ Europe \$75,489  
■ Asia-Pacific \$68,120  
■ Latin America \$30,899



# Dear Fellow Shareholders

**2012 was a good year for the Company and our shareholders. We delivered our fifth consecutive record net income year, increased our dividends for the forty-fifth consecutive year and increased retained earnings by \$78 million, all as we continued to position the Company for future growth.** The equity market responded and the Company's market capitalization surpassed \$1.0 billion dollars for the first time on July 20, 2012. Our strategy is to leverage our strength in core businesses by improving product mix through end market diversification and innovation, and expanding our presence in emerging markets. That strategy is working and should continue to deliver sustainable growth for shareholders.

Net income rose 10 percent to \$79.4 million, or \$3.49 per diluted share. Net income, excluding deferred compensation expense, rose 16 percent to \$84.8 million, or \$3.73 per diluted share, on record Surfactant and Polymer results.

Net sales declined 2 percent for the year, while sales volume rose 2 percent. Lower selling prices resulting from lower raw material costs accounted for a 2 percent decrease in sales, while foreign currency translation, primarily from the weakening of the Euro versus the U.S. dollar, accounted for 2 percent of the decline.

In 2012 we spent \$83 million to support and grow our business. Over the past three years, Stepan spent \$296 million in capital expenditures and acquisitions, of which more than one-third was invested in growth capital outside the United States. Our planned capital expenditures of \$110 million in 2013 and comparable levels in succeeding years demonstrate our

commitment to identify and capture opportunities around the globe that deliver profitable growth for Stepan.

Our Surfactant group continues to pursue its growth strategy: to expand the Stepan franchise in regions around the globe and drive growth through innovation developed either organically or through acquisition. Two business units contributed significantly to the group's record income this year – functional products, particularly applications for the global agricultural market, and distribution, a marketing and distribution infrastructure we built to serve the highly diversified general surfactant market. Despite intense reformulation and deformation of laundry products, our consumer products unit posted an 8 percent increase in income.

Stepan's Latin American business also had a record year, driven largely by higher surfactant sales in Brazil. Our expansion in Brazil is a good example of the Surfactant group's strategy to bring the Stepan franchise to key global regions that have certain growth characteristics. Consumers in Brazil are changing their preferences as their economy matures. In laundry products, for example, consumers are moving from soap bars to powders and, ultimately, to liquids, mirroring how consumer preferences have evolved in other regions around the world. Each step in the conversion process requires larger amounts of surfactants in the product formulation. Stepan's wide portfolio of personal care and functional surfactant products, such as agricultural and oilfield applications, also matches up well with Brazil's diverse and growing markets. We are investing in Brazil to capitalize on growth opportunities. We plan to add a second neutralizer at the Vespasiano plant and are evaluating other ways to expand capacity and add new capabilities in this burgeoning market.

Stepan also has added 50,000 tons-per-year of methyl ester capacity, expandable to 100,000 tons-per-year, in Singapore. Although several factors delayed plant start-up in 2012, the Singapore plant is a critical element of our strategy to bring the full scope of Stepan's surfactant franchise into key regions around the globe. We plan further diversification and expansion of the Singapore plant, including the addition of a multipurpose reactor.

During 2012, Stepan increased its controlling interest in Stepan Philippines Inc. (SPI) from 89 to 100 percent. SPI, which began as a joint venture, operates a surfactant manufacturing plant located south of Manila to meet customer needs in the Philippines as well as Southeast Asia. The plant's fabric softener production was recently expanded to meet growing demand in the region.

Enhanced oil recovery (EOR) continues to be an attractive growth opportunity for Stepan. EOR technologies are designed to access untapped reserves in mature oil fields by reducing surface tension between the oil and the rock. Through TIORCO, our joint venture with Nalco, we are working with customers



*F. Quinn Stepan, Jr.*

*F. Quinn Stepan*

on over thirty pilot floods and field tests using new or improved surfactants. With our joint venture partner, we will continue to provide TIORCO with the resources to expand its scale and scope.

Our Polymer group delivered record income this year despite the slow-to-recover global economy. Polyol sales volumes were up 5 percent, driven by higher insulation standards, increased penetration in the metal panel business and greater adhesives volumes in Europe. As a global supplier of aromatic polyester polyols used in insulation products for low slope commercial roofing, Stepan benefits from the growing worldwide interest in energy conservation. We recently diversified into the metal panel segment, an energy saving technology that has gained wide acceptance in many parts of the world as a durable, low maintenance, easy-to-install building material. We expect this technology will provide Stepan with significant opportunities for growth in the years ahead. We also are beginning to make inroads in several higher margin product segments, such as CASE (coatings, adhesives, sealants and elastomers) products.

As demand grows, we plan to achieve greater utilization of our existing polyol capacity in the United States and Europe. The second reactor in our plant in Wesseling, Germany, is fully operational and we are exploring whether to add a second reactor in our Poland plant. In China, one of the fastest growing regions, we are in the process of relocating our polyol plant at the request of the local Nanjing government. The relocation and expansion of our plant will position Stepan to remain a leader across a broad range of polyol applications. We expect to be in a new facility by 2015.

Specialty Products group's Lipid Nutrition business continued to reap the benefits of the integration of our existing offerings and the new product lines acquired in 2011. The addition of conjugated linoleic acid (CLA) and concentrated Omega 3 triglycerides to our medium chain triglycerides (MCT) creates a unique portfolio of nutritional fats for the food, supplement, nutrition and pharmaceutical industries worldwide.

Innovation – either developed internally or acquired – is a cornerstone of our growth strategy. Revenue generated from products commercialized within the past five years should grow significantly in the next three years. We have focused the majority of our innovation efforts on two large projects with potential for significant growth for Stepan, EOR and development of new feedstocks for surfactants. Our joint development agreement with Elevance Renewable Sciences, announced in 2010, is a key component of our feedstock development efforts. This year we introduced three technologies made from Elevance metathesized derivatives to the market and we are now gathering customer feedback. While there will be only limited commercial impact in the near term, we expect this technology to deliver significant value to Stepan and its customers.

We were also pleased this year to present the Alfred C. Stepan, Jr. Award for Innovation to Gregory P. Dado, research associate, Synthesis Group, for his innovative, patented process to sulfonate a polymer for a new customer. The award, the highest the Company confers on its employees, has been presented twelve times since its inception in 1985.

In October, the Board of Directors approved a two-for-one stock split of Stepan's common stock, with the goal of making the stock more attractive and available to investors. The Board also declared a 14 percent increase in the Company's quarterly common stock cash dividend, bringing the annual dividend to \$0.64 per share (post-split). This marks the forty-fifth consecutive year in which the quarterly dividend rate on our common stock has been increased.

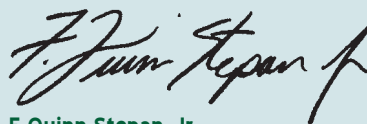
A critical ingredient in our sustained record of profitable growth is the quality of our people. While growth enhances and accelerates the opportunities for our employees to learn and develop, we also recognize the need to develop standards and processes to ensure consistent performance in our locations around the world. We are providing training and resources to help drive performance and greater accountability.

Our commitment to safety is unwavering. In 2012, our Global Injury recordable rate, a key metric of the number and severity of safety incidents, was .82, a slight improvement from 2011. While we have made substantial efforts in improving safety, we will continue to challenge ourselves until we are injury-free.

The slow-to-recover economy and investments we are making to support long-term growth will moderate income growth in 2013. Our strong balance sheet provides us with the ability to pursue both internal and external growth opportunities. We are dedicated to the success of our customers and appreciate the commitment of Stepan employees throughout the world who get their jobs done safely, while servicing our customers and delivering sustainable growth for you – our shareholders.



**F. Quinn Stepan**  
Chairman



**F. Quinn Stepan, Jr.**  
President and Chief Executive Officer



# Sustainable Growth:

New Applications, New Locations, New Technologies

For five consecutive years, Stepan has posted record income. We accomplished this during a particularly challenging time for the world economy and many of the markets we serve. Stepan was able to thrive during this difficult period because of our commitment to an ongoing strategy to diversify our product mix with new applications, grow our higher margin products and businesses, expand in global markets that fit a defined growth profile and develop new technologies through disciplined research and development efforts.

We are proud of our ability to deliver these record results for our shareholders and, more importantly, we are proud that these results have positioned Stepan to sustain its profitable growth over the long term.

While there will always be uncertainties in the world, we believe that the strategies we have implemented and the future plans we have developed enable Stepan to continue to grow and deliver results on a sustained basis.

The key reason for our confidence is the quality and commitment of our employees. Our team is a diverse blend of experienced long-term employees, many of whom have been with Stepan for all of their careers, and an influx of new recruits that bring fresh perspectives and new ways of doing things. Together, this blend creates just the right chemistry to propel the Company forward.

Central to our success is our people. Their passion drives the Company forward, while their discipline and hard work result in focused execution of our plans. In the special section that follows, members of the operating committee reflect on the Company's growth - where Stepan was five years ago, where it is today and what they see for the future.



Members of Stepan's Operating Committee (from left front row) John V. Venegoni, Vice President and General Manager, Surfactants; James E. Hurlbutt, Vice President and Chief Financial Officer; H. Edward Wynn, Vice President, General Counsel and Secretary; (from left back row) Robert J. Wood, Vice President and General Manager, Polymers; Scott C. Mason, Vice President, Supply Chain; F. Quinn Stepan, Jr., President and Chief Executive Officer; Gregory Servatius, Vice President, Human Resources; Frank Pacholec, Vice President, Research and Development and Corporate Sustainability Officer

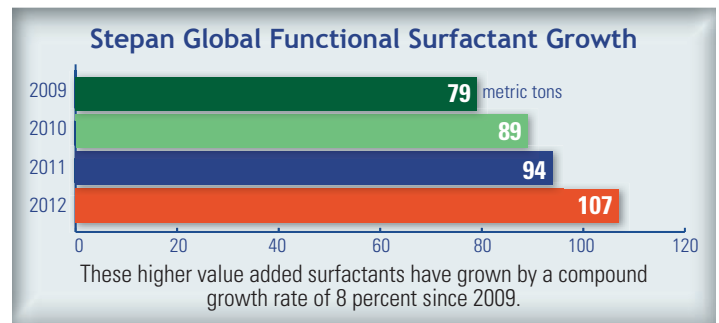
**John V. Venegoni**  
*Vice President and General Manager, Surfactants*

Stepan's Surfactant business has grown over the years based on strong customer relationships, solid platform chemistries and broad market and product portfolios. These elements, coupled with strong technical expertise and regional manufacturing facilities, create a solid base to add value by expanding and diversifying into adjacent products and regions.

Diversification through innovation and globalization continue to be the key pillars of our growth strategy moving forward. We remain optimistic about our innovation portfolio and its future potential for the Surfactants business. Our partnership with Elevance Renewable Sciences and the creation of TIORCO, our enhanced oil recovery joint venture, were significant accomplishments for our organization and are strategically aligned with the growing need for efficient and more sustainable technologies for both the consumer and energy sectors.



A key strategy for Stepan's Surfactant group is growth in higher performance functional surfactant products. **Arnold Castro**, Business Manager, Global Agricultural Products, leads the effort to expand the use of Stepan surfactants for agricultural applications worldwide.



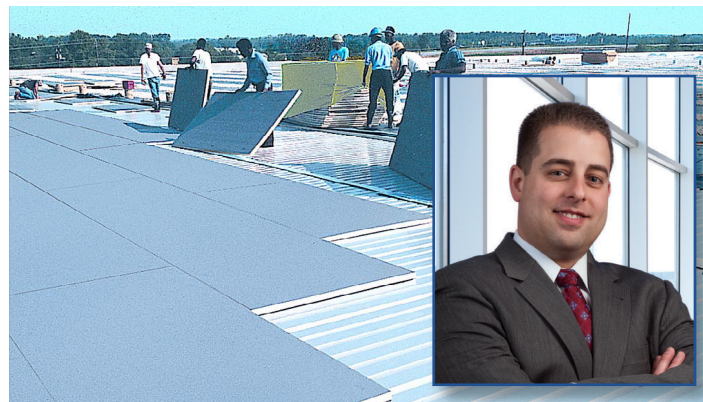
Our consumer products business represents the core of our global enterprise. This business is relatively recession resistant and continues to be the base from which we build. Additional resources have been added to accelerate global market diversification across our business, particularly in the distribution and functional products business areas. Our functional business includes surfactant products that are used for agricultural, oil field, emulsion polymer and wall board applications. We add value by working closely with our customers to help them succeed in their respective regional and/or global businesses. In many cases, Stepan provides technical and formulation assistance to help develop improved, sustainable products that are required to meet the growing global demand for food, water, and energy.

We continue to focus resources on geographical expansion into emerging markets. Strategically, we are focused on those emerging markets that fit a specific profile conducive to the growth of our franchise. Brazil fits such a profile due to the rapid and robust growth of surfactants in both the consumer and functional segments. Going forward, additional capital and human resources will be deployed in Brazil and in other select emerging markets that provide the necessary balance between consumer and functional products.





Stepan has built a marketing and distribution infrastructure to serve the highly diversified and fragmented general surfactant market. The unit, headed by **Cassandra Banno**, Business Manager, Global Distribution, posted record income during 2012.



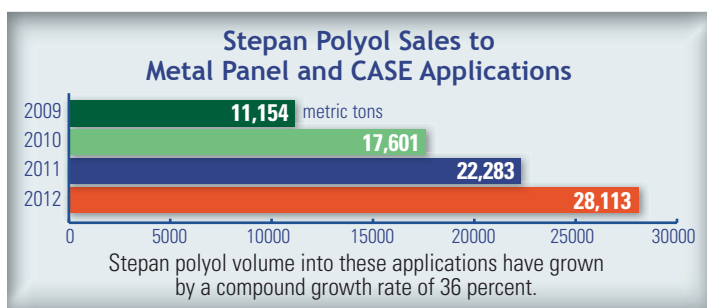
In Stepan's Polymers group, the unit headed by **Angelo Gabbianelli**, Business Manager, Laminate Polyols, found innovative ways to grow profitably despite challenging global economic conditions.

Overall, the Surfactant team is pleased with our progress and optimistic about the future. Our customer relationships and dedicated employees remain the strength of our business. We are all collectively committed to driving the short and long term growth of the Surfactant business.

**Robert J. Wood**

*Vice president and General Manager, Polymers*

Stepan is a leading supplier of polyester polyols used in low slope commercial roofing. Five years ago, the world began one of the worst economic downturns in history. Construction in North America and Europe declined and has yet to recover. Despite these challenges, and because the use of energy saving insulation in replacement roofing continued to grow, Stepan improved its profitability through efficient cost management, introduction of new technologies that target fast growing market segments and focused expansion in key regions, such as China and Eastern Europe.



The Polymer group today is building on its core polyester technology used in roofing and diversifying into new areas such as insulated metal panels and CASE (coatings, adhesives, sealants and elastomers). Insulated metal panels save energy and have gained wide acceptance in many parts of the world as a durable, low maintenance, easy-to-install building material. We are also expanding our polyol portfolio into the large and profitable CASE products. We are focused on running more efficient operations that result in higher yields, better cycle times and higher utilization rates of our facilities.

A key goal as we move forward is to elevate our innovation capabilities. While pure research will remain in North America, we plan to support regional efforts with new Polymer development capabilities in China and Poland, utilizing the talent available in those regions to help our customers grow their businesses.

**Frank Pacholec**

*Vice President, Research and Development and Corporate Sustainability Officer*

Over the past five years, a key focus has been to establish processes to enable innovation and make project management truly a core competency at Stepan. We've made great strides in recent years and the majority of that work is done. The projects in our innovation portfolio today are much bigger and have more potential than those we were developing five years ago. It's very exciting to be on the cusp of such interesting developments that can have a major impact on the Company.

**The Alfred C. Stepan, Jr. Award** for Innovation was granted to **Gregory P. Dado**, Research Associate, Synthesis Group, Research and Development, for his patented process to sulfonate a polymer for a customer's high-performance product. Greg's persistence and creativity attained the success of this process. This award is the highest honor Stepan confers on an employee.



While we continue to move several high potential, smaller projects through to commercialization, our focus now is on two large projects - enhanced oil recovery (EOR) surfactants and renewable feedstocks. EOR has long been an expertise of Stepan and we're focusing our efforts through our joint venture company, TIORCO. We have accomplished some very important work in renewable feedstocks with Elevance Renewable Sciences, using their award-winning metathesis technology to create novel surfactants. The groundwork we're laying today will create the blueprint for our growth tomorrow.

In five years, we expect these major programs to be mature and driven through to commercialization. We also anticipate that our research and development efforts will be more global in scale. As many of Stepan's growth opportunities are outside of North America, we need to have local resources to support our operations in Asia, Latin America and Europe.

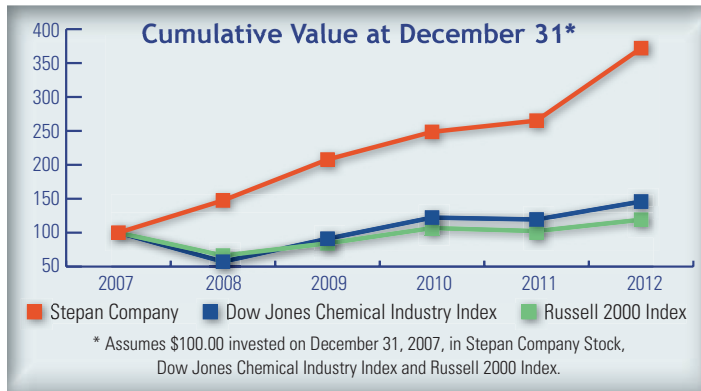
**James E. Hurlbutt**

*Vice President and Chief Financial Officer*

Our strong balance sheet is one of the key factors enabling Stepan the flexibility to grow over the past five years. We have taken a series of steps to create a healthy mix of low-cost, long-term debt and

maintain a net debt to total capitalization ratio of around 19 percent. As a result, we are ready to invest when opportunities arise.

We have also made a concerted effort over recent years to do a better job of telling our story to investors. Our stepped up communications efforts have resulted in increased analyst coverage and new interest from investors. Institutional investors, in particular, have responded favorably to the value of the Stepan franchise. They are attracted to the Company's steady earnings and relatively recession resistant core surfactant products.



The Board of Directors took a significant step this year to make our stock even more attractive to investors with the two-for-one stock split. Lowering per share price will make it possible for more investors to trade in Stepan stock. It also makes it easier for institutional investors that make large trades to get in and out of the stock without disrupting the market.

Our goals going forward will be to utilize our strong balance sheet to enable the Company to invest in plant expansions, new plant sites and strategic acquisitions that further the Company's growth strategy and provide greater value for our shareholders.

### Scott C. Mason Vice President, Supply Chain

Our first goal in the supply chain is to create stable, reliable performance so that our customers get the products they need, at the time they want, at the quality level they demand. Over the last five years, we have built more robust processes globally to support that goal in terms of raw material acquisition, customer management and operational effectiveness. We established the Operational Excellence Program, which involves Six Sigma teams, lean manufacturing practices and extensive employee training. We've made substantial progress and have set our sights even higher in terms of performance.

Our second major goal is to increase our ability to deploy capital globally. This involves creating new infrastructure, including work processes, systems and organizational design that can be standardized around the world. A key element will be to put the resources in place to manage multi-site/multi-product operations both regionally and globally.

Our challenge in five years will be similar to what it is today – building an infrastructure that ensures stability from raw material to finished product and that enables us to commercialize the ideas that emerge from our innovation portfolio. Stepan has the strong customer bonds and dynamic employee team that can make it happen.

### Gregory Servatius Vice President, Human Resources

Our focus in human resources over the past five years has been to raise the bar for the entire Company, to drive a high performance culture and to create more accountability. A focal point over the past two years has been to develop and implement a more disciplined approach to projects, so we trained more than 400 employees in the fundamentals of project management. We also are working on consistent people processes – from talent management to coaching to succession planning.

We are transforming the role of our human resources professionals with the goal of becoming integrated partners with the business units we support. We are challenging ourselves to better understand our businesses and find solutions that enable our growth strategies. Today, we are demonstrating value with our people processes and contributing to our business goals.

As we look ahead, we envision a company that is larger, less North American focused, and more diverse. Our challenge is to create consistent standards and processes that can be implemented around the world, reflecting both local practices and Stepan's unique culture. We are working hand-in-hand with our business partners to accomplish that goal.

### H. Edward Wynn Vice President, General Counsel and Secretary

Our goal during the past five years has been to provide legal and regulatory solutions that create sustainable competitive advantages for our Company. First and foremost, we have continued to improve our safety record, reducing recordable injuries and incidents by 58 percent and 48 percent, respectively. Because we believe that all injuries and incidents are preventable, we continue to focus on making our operations injury and incident free.

We have cleared the path for our business teams to focus on serving our customers and helped to improve the Company's financial picture by settling legacy litigation and implementing practices and procedures to avoid future litigation. We also changed the way we source legal services. We consolidated outside legal services with a smaller number of firms that are aligned with and committed to helping us deliver business results.

Research and development efforts are critical to the development of intellectual property. Pictured here is **Jenifer Heydinger Galante**, Senior R&D Manager



Finally, our legal and regulatory teams have developed strategies to support and protect the Company's growth and innovation. We implemented strategies and processes to help us better identify and manage risk to help us obtain approvals of new products; and to protect the intellectual property we have developed as part of our innovation portfolio.



# Using Stepan Products

## Consumer and Industrial Products

### Laundry & Cleaning

All-purpose cleaners • Bathroom cleaners • Carpet steam extraction • Carpet shampoos • Car wash detergents • Car wash spray wax emulsifiers • Cooling tower biocides • Dishwashing detergents • Disinfectants and sanitizers • Drain cleaners • Dry cleaning detergents • Fabric softener dryer sheets • Fine fabric washes • General disinfectants • Hand and dish disinfection • Hard surface cleaners • Hard surface disinfection for food preparation areas • Hospital disinfectants and sanitizers • Industrial floor cleaners • Industrial



food processing disinfection • Laundry, commercial and textile softeners • Laundry detergents • Laundry prespotters • Laundry sanitization • Metal cleaning emulsifiers • Rug shampoos • Sanitizers • Sanitization and deodorization of bath and laundry areas • Solvent degreasers • Swimming pool and hot tub algicides, slimicides and fungicides • Upholstery shampoos • Window cleaners



### Personal Care

After-shave lotions • Anti-bacterial handsoaps • Anti-dandruff shampoos • Baby shampoos • Bar soaps • Bath oils • Bath products • Body washes • Bubble baths • Cleansing creams • Combo bars • Conditioning shampoos • Dentifrices • Facial preparations • Glosses • Hair conditioners • Hair rinses • Leave-on conditioners • Liquid hand soaps • Make-up preparations • Medicated ointments • Moisturizers • Mousses • Ointments • Personal care cleansing preparations • Pre-shave lotions • Shampoos • Shaving creams • Skin creams • Skin lotions • Sunscreen products • Suppositories • Styling aids • Syndet bars



### Industrial Surfactants

Adhesives • Architectural coatings • Biodiesel fuels • Carpet backing • Caulk • Concrete • Drawing and forming compounds • Drilling foamers • Drywall joint compound • Dust control foam • Engine lubricants • Enhanced oil recovery • Firefighting foam • Foam markers • Gypsum board • Herbicides, fungicides, insecticides • Industrial paints • Inks • Landfill cover • Leather finishes • Non-woven binders • Oil emulsifiers • Oil well bactericides • Oil well corrosion inhibitors • Packaging • Paper coatings • Paper de-inking • Pesticide adjuvants • Pigments • Plastics • Sealants • Scouring, levelling, coupling, wetting, bleaching and dyeing assistants • Textile coatings • Textile lubricants • Vinyl flooring

### Polymers

Appliances: Refrigerators, freezers, water heaters • Automotive: Upholstery, interior trim, crash pads, floor mats, hoses, refrigerated trailer insulation, RV panels • Bath fixtures: Bathtubs, shower stalls, lavatories, spas, laundry tubs, tub and spa insulation • Construction: Resilient floors, wall coverings, pool liners, FRP panels, swimming pools, concrete forming pans, gutter/downspouts, cooling towers, mobile homes, rigid insulation, insulated pipes • Elastomers: Thermobreaks for metal thresholds and windows, engineering plastics • Electrical: Wire



and cable insulation, electrical tape, transmission hardware, circuit boards, switchgear housing, potting compounds • Furniture: Adhesives, flexible cushions • Household goods: Footwear, toys, luggage, book bindings, garden hoses, outerwear, tablecloths, shower curtains, upholstery • Insulations: Residential sheathing, commercial/ industrial roofing, building panels, spray-applied polyurethane foam insulation, decorative molded parts and displays • Marine: Boat hulls, deck hardware, floatation, motor covers, mooring buoys • Medical: Intravenous bags, medical tubing, prostheses, implants, pharmaceutical coatings • Military/aerospace: Encapsulation, electrical potting, cavity fill, cryogenic insulation, floatation • Packaging: Meat and produce film, bottles and containers, packaging foam • Paints/ coatings: Industrial and residential paints, polyurethane coatings, traffic paints • Recreation: Picnic cooler insulation, bowling balls, sporting equipment, taxidermy • Sealants: Expanding sealants in a can, two component polyurethanes

### Food & Pharmaceutical Ingredients

Confections • Energy bars and drinks • Flavors • Nutritional beverages • Nutritional supplements • Pharmaceutical excipients





# Five Year Summary

(In thousands, except per share and employee data)

For the Year	2012	2011	2010	2009	2008
Net Sales	<b>\$1,803,737</b>	\$1,843,092	\$1,431,122	\$1,276,382	\$1,600,130
Operating Income	<b>128,716</b>	118,456	107,897	104,888	70,680
Percent of Net Sales	<b>7.1%</b>	6.4%	7.5%	8.2%	4.4%
Income Before Provision for Income Taxes	<b>115,722</b>	104,894	101,479	97,131	54,878
Percent of Net Sales	<b>6.4%</b>	5.7%	7.1%	7.6%	3.4%
Provision for Income Taxes	<b>36,035</b>	32,292	35,888	34,028	17,615
Net Income Attributable to Stepan Company	<b>79,396</b>	71,976	65,427	63,049	37,172
Per Diluted Share (a) (b)	<b>3.49</b>	3.21	2.95	2.92	1.76
Percent of Net Sales	<b>4.4%</b>	3.9%	4.6%	4.9%	2.3%
Percent to Total Stepan Company Stockholders' Equity (c)	<b>18.0%</b>	19.2%	20.5%	25.3%	17.9%
Cash Dividends Paid	<b>12,757</b>	11,513	10,570	9,557	8,863
Per Common Share (a)	<b>0.5800</b>	0.5300	0.4900	0.4500	0.4250
Depreciation and Amortization	<b>51,294</b>	47,099	40,351	37,171	36,928
Capital Expenditures	<b>83,159</b>	83,166	73,748	42,631	49,778
Weighted-average Common Shares Outstanding (Diluted) (a)	<b>22,730</b>	22,440	22,180	21,592	21,098

## As of Year End

Working Capital	<b>\$275,911</b>	\$246,516	\$222,199	\$186,297	\$116,288
Current Ratio	<b>2.1</b>	2.1	2.1	2.1	1.5
Property, Plant and Equipment, net	<b>422,022</b>	383,983	353,585	248,618	238,166
Total Assets	<b>985,478</b>	901,118	811,431	634,203	611,897
Long-term Debt Obligations, Less Current Maturities	<b>149,564</b>	164,967	159,963	93,911	104,725
Total Stepan Company Stockholders' Equity	<b>478,985</b>	401,211	349,491	289,285	208,144

(a) All share and per share data reflect the effects of the two-for-one common stock split effective on December 14, 2012.

(b) Based on weighted-average number of common shares outstanding during the year.

(c) Based on average equity.

The selected financial data included herein has not been audited. The information was derived from the Company's audited financial statements for the respective years, which were presented in accordance with accounting principles generally accepted in the United States of America and which were audited in accordance with the standards of the United States Public Company Accounting Oversight Board. Copies of the full consolidated financial statements and of the independent registered public accountants' report that expressed an unqualified opinion (dated February 27, 2013) are included in the Company's 2012 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, which is available on request or via Website at [www.stepan.com](http://www.stepan.com).

# Quarterly Financial Data\*

(Dollars in thousands, except per share data)

2012 Quarter	First	Second	Third	Fourth	Year
Net Sales	\$ 465,269	\$ 470,231	\$ 440,978	\$ 427,259	\$1,803,737
Gross Profit	76,784	73,396	71,253	70,120	291,553
Interest, net	(2,604)	(2,086)	(2,684)	(2,225)	(9,599)
Income Before Income Taxes	32,720	31,518	30,235	21,249	115,722
Net Income	22,364	21,511	20,319	15,493	79,687
Net Income Attributable to Stepan Company	22,302	21,425	20,230	15,439	79,396
Per Diluted Share	0.98	0.94	0.89	0.68	3.49

2011 Quarter	First	Second	Third	Fourth	Year
Net Sales	\$ 422,598	\$ 476,989	\$ 499,335	\$ 444,170	\$ 1,843,092
Gross Profit	61,786	69,585	64,080	60,112	255,553
Interest, net	(2,063)	(2,194)	(2,256)	(2,582)	(9,095)
Income Before Income Taxes	27,135	31,332	28,229	18,198	104,894
Net Income	18,816	21,006	19,231	13,549	72,602
Net Income Attributable to Stepan Company	18,761	20,867	19,169	13,179	71,976
Per Diluted Share	0.84	0.93	0.85	0.58	3.21

# Quarterly Stock Data\*

Quarter	2012 High	Stock Price Range Per Share			Dividends Paid Per Common Share	
		2012 Low	2011 High	2011 Low	2012	2011
First	\$ 46.00	\$ 38.05	\$39.43	\$ 34.31	\$0.14	\$0.13
Second	\$ 47.25	\$ 41.35	\$37.61	\$ 31.33	\$0.14	\$0.13
Third	\$ 50.43	\$ 42.72	\$41.08	\$ 32.70	\$0.14	\$0.13
Fourth	\$ 55.90	\$ 44.89	\$41.83	\$ 32.32	\$0.16	\$0.14
Year	\$ 55.90	\$ 38.05	\$41.83	\$ 31.33	\$0.58	\$0.53

\*All share and per share data reflect the effects of the two-for-one common stock split effective on December 14, 2012.

# Corporate Directors & Officers

## Board of Directors



**F. Quinn Stepan**  
Chairman



**F. Quinn Stepan, Jr.**  
President and  
Chief Executive Officer



**Michael R. Boyce**  
Chairman and Chief Executive Officer,  
PQ Corporation, a global specialty  
chemical and catalyst company,  
Malvern, Pennsylvania



**Randall S. Dearth**  
President and Chief Executive Officer,  
Calgon Carbon Corporation, a global  
manufacturer of activated carbon  
and innovative treatment systems,  
Pittsburgh, Pennsylvania



**Joaquin Delgado, PhD.**  
Executive Vice President, Health Care  
Business Group, 3M Company, a global  
diversified technology company,  
St. Paul, Minnesota

## Officers

**F. Quinn Stepan**  
Chairman

**F. Quinn Stepan Jr.**  
President and Chief Executive Officer

**James E. Hurlbutt**  
Vice President and  
Chief Financial Officer

**Scott C. Mason**  
Vice President, Supply Chain

**Frank Pacholec**  
Vice President, Research and  
Development and Corporate  
Sustainability Officer

**Gregory Servatius**  
Vice President, Human Resources

**John V. Venegoni**  
Vice President and General Manager,  
Surfactants

**Robert J. Wood**  
Vice President and General Manager,  
Polymers

**H. Edward Wynn**  
Vice President, General Counsel and  
Secretary

**Kathleen O. Sherlock**  
Assistant General Counsel and  
Assistant Secretary



**Gregory E. Lawton**  
Former President and Chief Execu-  
tive Officer, Johnson Diversey, Inc.,  
a global provider of cleaning and  
hygiene solutions to the institutional  
and industrial marketplace, Sturtevant,  
Wisconsin



**Edward J. Wehmer**  
President and Chief Executive Officer,  
Wintrust Financial Corporation, a  
financial services company, Rosemont,  
Illinois



# Corporate Information

## Departmental Vice Presidents

### Finance

#### **Matthew J. Eaken**

Vice President and Corporate Controller

### Logistics

#### **Debra A. Stefaniak**

Vice President, Global Logistics

### Manufacturing

#### **Robert S. Mangold**

Vice President, Manufacturing and Engineering

#### **Kyle Montgomery**

Vice President, Plant Operations, The Americas

### Purchasing

#### **Arthur W. Mergner**

Vice President, Procurement

#### **Richard H. Wehman, Jr.**

Vice President, Strategic Purchasing

### Research and Development

#### **Matthew I. Levinson**

Vice President, Global Process Development

#### **Paul L. Neill**

Vice President, Polymers Research and Development

### Specialty Products

#### **James M. Butterwick**

Vice President, Specialty Products

### Surfactants

#### **Scott R. Behrens**

Vice President, Business Management

#### **Charles A. Brown**

Vice President, Latin America

#### **Jeffrey E. Grah**

Vice President, Product Management

#### **John Hall**

Vice President & General Manager, Stepan Asia – Pacific Surfactants

#### **Anthony Martin**

Vice President, Europe

#### **Sean T. Moriarty**

Vice President, Consumer Products

#### **Mark F. Mydlach**

Vice President, Surfactant Sales

#### **James S. Pall**

Vice President, Corporate Development

### Polymers

#### **Kevin J. Knutsen**

Vice President, North American Polymers

#### **Roger Stubbs**

Vice President, European Polymers

## Independent Registered Public Accounting Firm

Deloitte & Touche LLP, Chicago, Illinois

## Transfer Agent and Registrar

Computershare Investor Services, LLC

2 North LaSalle St., Chicago, Illinois 60602

312.588.4991 Fax 312.293.4943

Contact the Registrar and Transfer Agent concerning stock certificates, dividend checks, transfer of ownership, or other matters pertaining to your stock account.

## Stock Listing

New York Stock Exchange: SCL and SCLPR

## Investor Relations

James E. Hurlbutt

847.446.7500

## Form 10-K

Copies of the Company's annual report on Form 10-K, filed with the Securities and Exchange Commission, will be available without charge to stockholders and interested parties upon written request to the Secretary of the Company or may be obtained on our Website at [www.stepan.com](http://www.stepan.com)

## Annual Meeting

The 2013 Annual Meeting for the Stockholders of the Company will be held at 9:00 a.m., Tuesday, April 30, 2013, at the Company's headquarters in Northfield, Illinois.

## Corporate Governance

The Nominating and Corporate Governance Committee of the Board of Directors has established a committee charter and a Code of Conduct. These documents are provided on Stepan's Website at [www.stepan.com](http://www.stepan.com) within the Investor Relations section of the site. At the same Website location, Stepan provides an Ethics Hotline phone number and Website that allows employees, shareholders and other interested parties to communicate with the Company's management or Audit Committee (on an anonymous basis, if desired) through an independent third party hotline.





Northfield, Illinois 60093  
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[www.stepan.com](http://www.stepan.com)