Driving results.
Improving performance.

Stepan

2008 ANNUAL REPORT

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Stepan is a leading merchant producer of surfactants that are the key ingredients in consumer and industrial cleaning compounds. Manufacturers of laundry and dish detergents, shampoos, bodywash and toothpastes depend on surfactants to achieve the foaming and cleaning qualities of their products. Stepan also produces fabric softeners, germicidal quaternary compounds, and biodiesel. Other applications include lubricating ingredients, emulsifiers for spreading of agricultural products, stabilizers for latex, coatings and adhesive, oil field drilling and enhanced oil field production. The Company also produces polyols and polyurethane foam systems that are used in thermal insulation, primarily by the construction industry. The Company is also a principal supplier of phthalic anhydride, a commodity chemical intermediate that is used in polyester resins, alkyd resins and plasticizers, as well as internally in the manufacture of the Company's polyol products. Stepan produces other specialty products that are often custom-made to meet individual needs. These include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. Headquartered in Northfield, Illinois, Stepan utilizes a network of modern production facilities located in North and South America, Europe, China and the Philippines.

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, bodywash and toothpastes. Other applications include fabric softeners, lubricating ingredients, emulsifiers for spreading agricultural products, and industrial applications such as latex systems, plastics and composites.

Total surfactant sales represent 75 percent of Stepan's 2008 sales or $1,199,438,000 versus $975,726,000 in 2007. The increase in sales was largely due to a 25 percent increase in average selling prices.

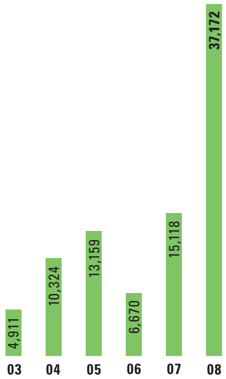
Domestic surfactant operations, representing 63 percent of surfactants, recognized a $157.7 million, or 26 percent, increase in sales on a 27 percent increase in average selling prices. Foreign operations representing 37 percent of surfactants, reported a $66.0 million, or 17 percent, increase in sales due to higher selling prices.

POLYMERS The polymer product group includes polyurethane polyols, phthalic anhydride and specialty polyurethane systems. 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 40 percent of the Company's phthalic anhydride is utilized internally in the production of our polyol products.

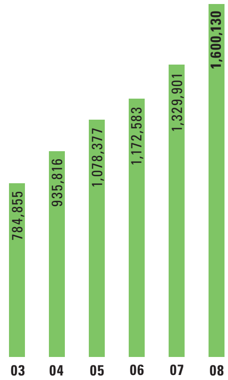
Polymer sales represent 22 percent of 2008 sales, or $359,014,000 versus $321,228,000 in 2007, an increase of 12 percent. Higher selling prices due to higher raw material costs caused the increase in sales.

SPECIALTY PRODUCTS Specialty products include flavors and emulsifiers and solubilizers used in the food and pharmaceutical industry. Sales for specialty products for 2008 were $41,678,000 versus $32,947,000 for 2007. Specialty products represent three percent of net sales.

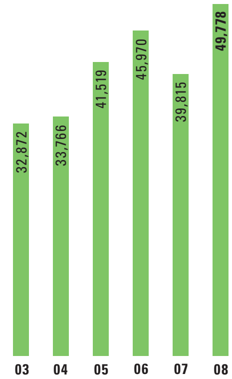
PRODUCTION FACILITIES Millsdale (Joliet), Illinois • Anaheim, California • Fieldsboro, New Jersey • Maywood, New Jersey • Winder, Georgia • Longford Mills, Ontario, Canada • Matamoros, Mexico • Manizales, Colombia • Vespasiano, Brazil • Stalybridge, United Kingdom • Voreppe (Grenoble), France • Wesseling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



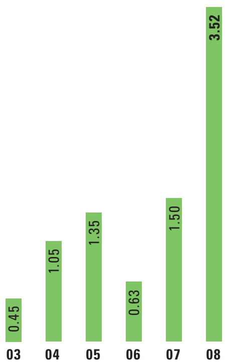
NET INCOME
(dollars in thousands)
Compound Annual Growth
Five Years +50%



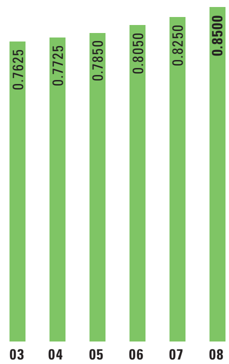
NET SALES
(dollars in thousands)
Compound Annual Growth
Five Years +15%



CAPITAL EXPENDITURES
(dollars in thousands)
Compound Annual Growth
Five Years +9%

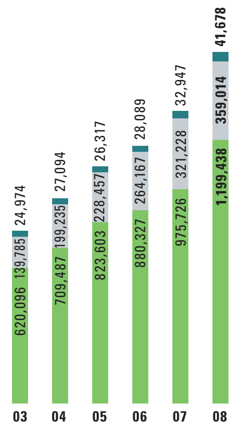


NET INCOME PER DILUTED COMMON SHARE
(dollars)
Compound Annual Growth
Five Years +51%

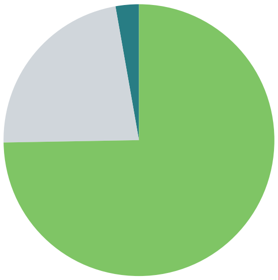


DIVIDENDS PER COMMON SHARE
(dollars)
Compound Annual Growth
Five Years +2%

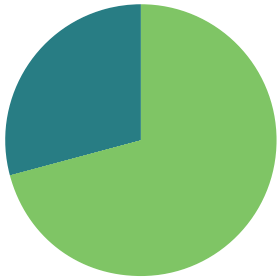
EQUITY PER SHARE
(dollars)
Compound Annual Growth
Five Years +4%



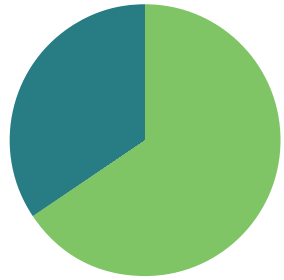
SEGMENT SALES
(dollars in thousands)
- Surfactants
- Polymers
- Specialty Products



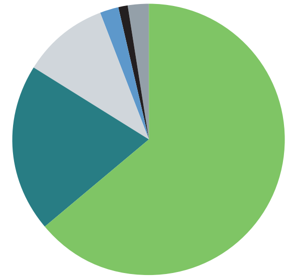
2008 SEGMENT SALES
(dollars in thousands)
- Surfactants $1,199,438
- Polymers $359,014
- Specialty Products $41,678



2008 LONG LIVED ASSETS
(dollars in thousands)
- United States $176,904
- Others $71,979



2008 GLOBAL SALES
(dollars in thousands)
- United States $1,051,551
- Others $548,579



2008 SALES DOLLAR DISTRIBUTION
(dollars in thousands)
- Material $1,022,891 63.9%
- Other Expenses $322,528 20.1%
- Payroll & Fringes $162,996 10.2%
- Depreciation & Amortization $36,928 2.3%
- Income Taxes $17,615 1.2%
- Net Income $37,172 2.3%

Financial highlights

In thousands, except per share and stockholder amounts	*2008*	*2007*	*% Change (2008 vs. 2007)*	*2006*	*% Change (2007 vs. 2006)*
Net sales	**$ 1,600,130**	$ 1,329,901	+20	$ 1,172,583	+13
Net income	**37,172**	15,118	+146	6,670	+127
Per diluted share	**3.52**	1.50	+135	0.63	+138
Percent of net sales	**2.3%**	1.1%	+109	0.6%	+83
Percent return on average equity	**17.9%**	7.8%	+129	3.8%	+105
Depreciation and amortization	**36,928**	37,176	-1	38,384	-3
Capital expenditures	**49,778**	39,815	+25	45,970	-13
Dividends per common share	**85.00¢**	82.50¢	+3	80.50¢	+2
Working capital	**116,288**	92,954	+25	87,974	+6
Current ratio	**1.5**	1.5	—	1.5	—
Long-term debt, less current maturities	**104,725**	96,939	+8	107,403	-10
Stockholders' equity	**208,144**	206,051	+1	180,786	+14
Stockholders' equity per share	**20.27**	20.69	-2	18.33	+13
Average common shares outstanding	**9,566**	9,316	+3	9,133	+2
Number of stockholders	**1,231**	1,317	-7	1,312	—

STOCK INFORMATION

New York Stock Exchange symbol: SCL	*2008*	*2007*
Stock price range	**$ 27.75 – 60.82**	$ 25.14 – 35.00
Dividend (Common)	**$ 0.8500**	$ 0.8250
Dividend (Preferred)	**$ 1.375**	$ 1.375
Earnings per diluted share	**$ 3.52**	$ 1.50
Return on equity	**18%**	8%
Book value	**$ 20.27**	$ 20.69
Shares outstanding	**9,632,089**	9,309,154

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 limiting, 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.

To our shareholders

We are pleased to report record net income and an improved balance sheet in 2008. Last year, we stated our business was positioned to perform and would benefit from the investments we made to grow, diversify and restructure our business. We said we would leverage existing capacity and improve the profitability of our business. We delivered on that commitment.

2009 will challenge our Company. The recession will affect our sales volume, particularly for polymers. Our Surfactant business, primarily the volumes associated with consumer laundry and personal care applications, has historically been relatively resistant to a recession. Our business should fare better than most in these difficult times. However, we cannot be complacent. Although we remain committed to investments that grow our business or improve our profitability, we have taken short-term actions to reduce costs and generate cash within our business. Falling commodity prices should help. In 2009, we will drive results within each of our three business units and strive to improve performance despite the difficult economy.

Net income in 2008 increased 146 percent to $37.2 million, or $3.52 per diluted share, and net sales increased 20 percent to $1.6 billion, reflecting higher selling prices and a favorable foreign exchange impact, offsetting a two percent decline in volume. Our Surfactant business posted higher earnings driven primarily by continued product and market diversification within our core franchise. In our Polymer business, greater requirements for insulation drove polyol volume growth globally, but margins declined due to higher raw material and internal logistics costs. Phthalic anhydride (PA) volumes decreased with our triennial turnaround and the downturn in the economy. Specialty Product profits were unchanged as improved food ingredient sales volume growth was offset by lower pharmaceutical volume.

Our 2008 results include after-tax gains of $6.1 million on the sale of a product line and $5.2 million on the sale of farmland adjacent to our Millsdale, Illinois, plant. We are using the proceeds from the land sale to acquire and renovate an office building near the Company's headquarters, which will replace office space nearing the end of its lease term. Also included in the year's results is deferred compensation plan expense of $3.0 million, after tax.

Surfactant sales, which account for 75 percent of Company revenues, rose 23 percent, reflecting higher selling prices and improved customer and product mix. Sales volume declined one percent. All regions of the world contributed to improved profitability. In particular, fabric softener margins recovered after declining in 2007 in the face of rapid raw material cost increases. Our ongoing efforts to diversify our base sulfonation business resulted in growth in the higher valued added oil field and agricultural markets. We also benefited from our decision several years ago to focus dedicated marketing and technical resources on the highly fragmented and higher value added general surfactant market, as this segment posted another profitable year.

Volume in the Polymer business, which accounts for 22 percent of Company sales, declined two percent as weakness in phthalic anhydride sales more than offset volume gains in sales of polyol used in energy saving insulation products. Margins, however, were adversely affected by a combination of higher raw material costs and the added cost of shipping polyol from our plants in the U.S. and Asia to supplement capacity in Europe, where demand was particularly strong. Successful debottlenecking of our plant in Wesseling, Germany, has brought capacity close to current demand levels. Our planned expansion of the Wesseling plant has been delayed by the recession and the opportunity to lower the expenditure due to falling costs. We expect to need this capacity by 2011. Falling raw material costs should help restore margins going forward.

Sales volume for PA decreased 22 percent, reflecting weakness in the housing, auto, boating and recreational vehicle industry, although PA used internally continued to increase based on volume growth of our polyol products.

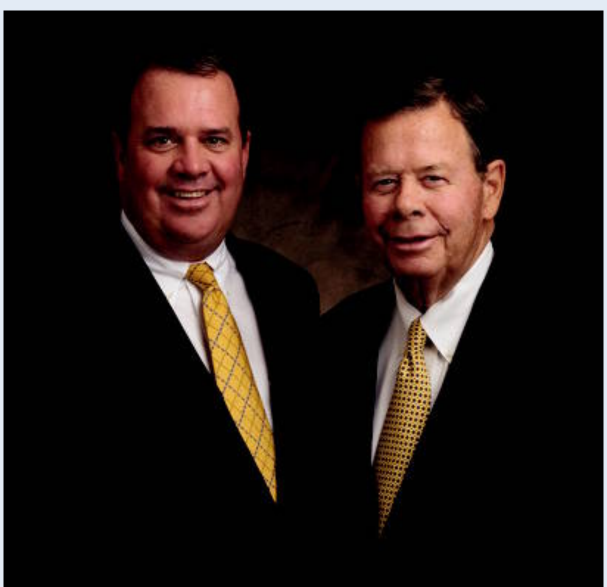
In the third quarter, we announced the sale of select product lines within our urethane system business to Bayer MaterialScience LLC. The product lines sold were insulation materials used in appliances, water heaters, doors, roofs, picnic coolers and similar applications. The sale will enable Stepan to focus on its polyester polyols for the flexible and C.A.S.E. (coatings, adhesives, sealants and elastomers) end uses, key growth targets for the Company.

China continues to be a market that offers enormous potential for Stepan. During 2008, we strengthened our management team in China by adding experienced leadership from our U.S. operations. We are well positioned for growth when the market recovers from the recession.

For several years, the Company has focused on four main priorities to grow our business and to drive profit improvement. They are to deliver key growth targets, improve base business returns through diversification and volume growth, deliver innovation, and drive costs out through Six Sigma and a purchasing transformation. We made progress on all of these initiatives in 2008.

The first priority — to deliver on key growth targets — includes four critical areas of Stepan's business: 1. polyols, 2. quaternaries, 3. methyl ester/biodiesel integration, and 4. sulfonation utilization.

Worldwide demand for greater energy efficiency in building materials should continue to drive long term demand for Stepan's polyols, as the primary application is rigid foam insulation for commercial roofing. We were challenged this year as high demand in Europe outstripped local plant capacity that required us to ship products from other Stepan locations. Polyol debottlenecking activities are already completed in Wesseling, Germany, and planned for our Millsdale plant in 2009.



New technologies are also driving polyol growth. Stepan's next generation polyol, which improves fire resistance and cost performance, is gaining customer acceptance. We also see significant growth opportunities in metal panel, flexible foam and C.A.S.E. applications.

Quaternary surfactants are key components of several growing parts of Stepan's business, including fabric softeners, certain agricultural products and oil field applications. Margins recovered in our global fabric softener business in 2008, after declining in 2007. Capacity remains tight, but through debottlenecking and leveraging existing assets, such as our multi-purpose biodiesel equipment, we have been able to meet growing customer demand. A new facility will be available in our Winder, Georgia, plant in mid-April of 2009, which will improve our process capabilities and expand capacity. In December, we acquired some fabric softener and phosphate ester product lines from CECA, S.A. in France. We will be working with customers to transition the production to Stepan's manufacturing facilities in Voreppe, France. We also anticipate that new quaternary products for oil field applications and increased biocidal efficacy in hard surface cleaners will drive future volume growth.

Stepan's long history as a methyl ester producer is an important competitive advantage in the surfactant market. Methyl esters are a key surfactant feedstock for the Company and we are continually exploring ways to further derivatize them. Six years ago we diverted a portion of our methyl ester capacity into the emerging biodiesel market. Since then, demand for bio-renewable feedstocks, such as soybean oil, has driven up biodiesel feedstock costs, resulting in lower biodiesel margins. We responded by adding lower cost tallow

F. QUINN STEPAN, JR. *President and Chief Executive Officer*
F. QUINN STEPAN *Chairman*

as a feedstock together with the traditional soybean oil formulation, which enabled us to be more competitive in our biodiesel business. Equally important, because of the synergy with our surfactants business, we have been able to use our multi-purpose biodiesel equipment to support the manufacture of other products for use in the agricultural and consumer products markets. As we move forward, investment returns will drive our strategy on how to best leverage our existing equipment and infrastructure to support the most value added products.

We continued to focus on the issue of excess sulfonation capacity, which has challenged the Company in recent years. While there is still significant excess capacity in North America, we made progress improving utilization through our ongoing diversification strategy. Utilization rates at our Philippine joint venture are improving, but still not up to target levels.

In our innovation efforts, Stepan is guided by three trends: the greater utilization of bio-renewable feedstocks, the higher cost of energy, and the more efficient delivery of active ingredients in our customer's products. Enhanced Oil Recovery (EOR) is one area that presents significant opportunities for Stepan's surfactants. We participated in several successful pilot floods in 2008 and anticipate more in 2009. In September, we announced the formation of a joint venture with Nalco Holding Company to globally market custom engineered chemical solutions for increased production of crude oil and gas from existing fields. The joint venture, TIORCO, LLC, provides an integrated sales and service channel that benefits from Nalco's expertise in energy markets and Stepan's global surfactant technology and manufacturing capabilities. The joint venture offers significant long term potential for Stepan, even if crude oil prices remain below the historically high levels experienced in 2008.

We are encouraged by developments in our innovation portfolio. For 2009, we will concentrate our resources on three large opportunities — EOR, our next generation polyol and products that respond to customer demands for concentrated, low foaming and bio-renewable laundry cleaners.

Our Six Sigma effort was a key driver in both improved customer service and cost reductions, accounting for $12.5 million in cost savings in 2008. We are using a rigorous, data-driven decision process to help reduce operating costs and working capital. We expect benefits from these efforts to continue in 2009 and beyond.

In October, Stepan's Board of Directors announced a 4.8 percent increase in the Company's quarterly cash dividend to $0.22 per share. This marked the forty-first consecutive year in which the dividend on the common stock has been increased.

In April of 2009, Robert D. Cadieux, former president and chief executive officer of Air Liquide America Corporation, will retire from the Board of Directors after 17 years of dedicated service to the Company. For many years, Stepan has benefited from Mr. Cadieux's wise counsel and expertise. On behalf of all of us at Stepan, we thank him for his many contributions to the success of the Company and wish him the best for the future.

Virtually every indicator suggests that the upcoming year will be very challenging for the nation and the world. In times such as these, we count on the energy and resiliency of our talented and hard-working employees at Stepan. They will work closely with our customers and turn this difficult time into an opportunity as our founder did when he started Stepan during the Great Depression in 1932. We appreciate their commitment and enthusiasm for this task. We also thank you for your investment in Stepan. We are committed to driving results and improving performance for you.

As we conclude this letter to our shareholders, we also want to thank our many customers who have made 2008 a record year for Stepan. Without our customers' support we would not have a business. We appreciate the opportunity to work with our customers to build our respective businesses. You motivate all we do as a company. In these tough times, we look forward to continuing our business relationship and building for the future.

F. Quinn Stepan

F. QUINN STEPAN
Chairman

F. Quinn Stepan Jr.

F. QUINN STEPAN, JR.
President and Chief Executive Officer

Driving results. Improving performance.

Improving profitability is an ongoing goal for Stepan. In the past two years, we focused on restructuring certain areas of the Company to pave the way for greater profitability and growth. We also made significant investments to build and diversify our business. We have seen the benefits of our efforts in the Company's performance even in the face of today's challenging market conditions. Our focus now is to deliver consistent and reliable performance in all of our businesses. We believe that leveraging our existing assets — versatile technologies, a global network of facilities, deep understanding of the customers and markets we serve — is the key to sustainable growth and profitability.

Highlighted in this special section are four major platforms in the Company's growth strategy. We are creating opportunities to innovate within our core technologies. We are improving our processes with rigorous and disciplined methodologies. We are relentless in finding ways to make our assets work harder and more efficiently. We never stop learning about our customers and devising better ways to meet their needs. These are the competitive advantages that will guide and sustain Stepan in these uncertain times.

Driving innovation.

Innovation is the key to growth. We excel in working hand-in-hand with our customers to find new applications for our core technologies that anticipate and respond to market opportunities. And, in recent years, we have focused on being more effective in how we approach innovation. We adhere to a systematic, phased approach that tracks product development from ideation through commercialization. We have invested in pilot plants and technical staff at our manufacturing facilities to expedite the success of new commercial opportunities. As a result, we have been able to leverage our broad technical knowledge and expanding network of global facilities to innovate for customers around the world.

Our approach in China, a large potential market for polymers, is a good example of how we are adapting our traditional strengths to the challenges of a new marketplace. 2006 marked the first full year of operation for the Company's 20,000-ton joint venture polyol plant in Nanjing. After our entry into China, it quickly became clear that a different approach was required to gain momentum in this highly fragmented market where development cycles are often two to three times faster than in the U.S. and Europe. We consolidated several offices and established Nanjing as the geographic center of our operations in China, thus creating greater synergies by housing our technical and sales staff in the same location. We built a pilot plant with a two metric ton reactor that can produce up to two small scale batches in a 24-hour period, which speeds the development process. We hired a dozen new chemists and engineers for our research and development center. We also transferred an experienced manager from our Polymers business to head up the operation. His knowledge of the Company's core technologies will

As the new head of Stepan's operations in Nanjing, **KEVIN KNUTSEN** *(left), Director, Asia Polymers, will work with* **MICHAEL WANG**, *Research Manager, to maximize Company resources in China's dynamic marketplace, including a new pilot plant with a two metric ton reactor that speeds product development.*

help to better integrate the operations into the Stepan global network. We have the right strategies, infrastructure and human resources in place to gain traction in this market as the economy turns around.

Our response to the dramatic rise in crude oil prices during 2008 illustrates Stepan's ability to adapt existing technologies to solve new problems. While the Company has been involved in using surfactants to improve oil recovery for more than 30 years, recent improvements in technology and changes in feedstocks have led to more effective Enhanced Oil Recovery (EOR) approaches. TIORCO, LLC, our joint venture with Nalco Holding Company, brings a new concept for chemical EOR that bundles the full complement of services required to implement projects. Each partner in the joint venture brings capabilities that will enable our customers to streamline their EOR project start-up time and improve success rates with better implementation, servicing and oversight. We are confident that this joint venture will contribute significantly to the growth of the surfactant market.

Driving process improvements.

Two years ago, the Company launched a companywide initiative to reinvigorate our continuous improvement efforts by better integrating Six Sigma principles into our Company. Today, our organization embraces the rigorous Six Sigma methodology as a means to improve customer satisfaction, create greater efficiencies and reduce costs. Optimizing operational effectiveness represents an enormous opportunity for Stepan. In 2008, our Six Sigma efforts resulted in $12.5 million in cost savings and we have set ambitious cost-out targets in our three-year plan.

The debottlenecking of our Wesseling, Germany, polyol plant in 2008 illustrates how Stepan can achieve significant cost savings and improve customer satisfaction through process thinking, resource alignment and teamwork. Following the passage of legislation in Europe mandating higher energy efficiency, demand for polyols used in rigid insulation jumped dramatically in 2008, quickly surpassing our plant capacity. As a short-term measure, we were forced to source polyol from Stepan facilities in the United States

GINO ROMBEY, *Plant Manager, spearheaded the team that debottlenecked Stepan's Wesseling, Germany, polyol plant, an effort that improved customer satisfaction and resulted in significant cost savings.*

and China in order to meet demand. To achieve a longer term solution, we accelerated our debottlenecking efforts at the plant. A multi-functional, global team investigated and implemented process improvements that reduced batch times and expanded production capabilities. Their efforts resulted in 25 percent additional capacity at the plant. The plant is now able to supply all of Europe's 2009 business requirements without support from other Stepan facilities, representing significant savings in global shipping costs. These initiatives required little capital investment, reinforcing the value of focused thinking, team effort and hard work in achieving continuous improvement.

Driving global capabilities.

Stepan's global fabric softener initiative is one of the most successful recent growth platforms in the Company's surfactant business. Our biodegradable and highly concentrated system for fabric softeners, pioneered decades ago, has become the formulation of choice in the U.S. and Europe. With multiple facilities around the globe, we are able to provide customers with one of the most robust fabric softener production networks found anywhere in the world. This is a key competitive advantage.

The business rebounded in 2008 after a challenging 2007 when demand outpaced production capacity and margins declined due to increasing raw material costs. Margins improved in 2008 and, as a result of debottlenecking efforts, we were better able to meet growing demand without outsourcing. We continue to make significant investments in our global plant network to better serve our multinational customers, with a particular focus on emerging growth markets for fabric softeners, such as Latin America and Asia. We recently installed new reactors in our plants in Mexico and the Philippines. An expansion in our Winder, Georgia, facility will be completed in mid-April of 2009, which will improve process capabilities and effectively double the capacity of the plant. Another important factor in our improved performance this year was our ability to capture additional demand by using existing assets, such as our multi-purpose biodiesel equipment, for fabric softener production.

We added to our product offerings this year through the acquisition in France of the fabric softener and phosphate ester product lines from CECA S.A., a division of the international chemical company, Arkema, Inc. We are working with our new customers to transition the manufacturing of these products to Stepan's facilities in Voreppe, France. Our commitment to the European market and our global surfactant business is enhanced by the addition of these product lines.

CHARLES BROWN *(left), Vice President, Latin America, and* **SEAN MORIARTY,** *Director, Consumer Products, are key members of the global business team that provides Stepan customers with one of the most robust fabric softener sales and production networks found anywhere in the world.*

Driving marketing strategies.

In 2003, Stepan made a strategic decision to create a separate business unit to focus on the general surfactant market, which comprises our distributor business, non-global personal care and laundry and cleaning accounts, and industrial lubricants and additives businesses. Our thinking was that this market segment had distinctively different needs from large, global accounts and would benefit from specially tailored sales and marketing programs. Five years of profitable growth confirms that our strategy was on target.

ROBERT PEACOCK *(left), Director, General Surfactants, and* **CASSANDRA BANNO,** *Global Distribution Manager, helped create a consistent global sales and marketing model for Stepan distributors, who play a key role in reaching the profitable and growing general surfactant market.*

We saw the need to create a consistent global model for our distributors, who play a key role in reaching the general surfactant market. We developed regional business strategies based on our assets, our sales channel and product line strengths in that particular geographic area.

Much of our sales and marketing effort is dedicated to this important group. Distributors appreciate that Stepan is horizontally integrated and offers a broad range of new and upgraded products in response to changing market dynamics. We formed a cross functional workgroup within Stepan to address specific needs of distributors, including ways to increase communication, address concerns and share best practices. We host monthly webinars with the Stepan staff and hold periodic strategic meetings with key customers. A special newsletter for U.S. distributors that chronicles new product launches, policy changes, tradeshow appearances and personnel changes will be extended to Latin American markets in 2009. Stepan also offers a wide range of training programs for distributors, including subjects such as an introduction to surfactants, hands-on formulating, new marketing initiatives and how to access resources within Stepan.

Our technical services experts are also a critical part of our initiative for the general surfactant market. In the fall of 2008, we merged the marketing management and technical services functions to achieve even greater synergies. While still in the early stages, we expect to shorten response time, improve sales and marketing integration, and provide greater technical capability for our customers through the combined team. With these enhancements, we should continue to expand and grow in this market segment in the years ahead.

Using Stepan products




CONSUMER & 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 pre-spotters ▪ 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

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 ▪ Pharmaceutical excipients

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 ▪ 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

Five year summary

In thousands, except per share and employee data	*2008*	*2007*	*2006*	*2005*	*2004*
For the year					
Net sales	**$ 1,600,130**	$ 1,329,901	$ 1,172,583	$ 1,078,377	$ 935,816
Operating income	**70,680**	35,095	15,853	25,468	19,179
Percent of net sales	**4.4%**	2.6%	1.4%	2.4%	2.0%
Income before income taxes and minority interest	**54,878**	23,715	7,389	17,646	14,633
Percent of net sales	**3.4%**	1.8%	0.6%	1.6%	1.6%
Provision for income taxes	**17,615**	8,687	900	4,170	4,320
Income before cumulative effect of change in accounting principle	**37,172**	15,118	6,670	13,529	10,324
Per diluted share [(a)]	**3.52**	1.50	0.63	1.39	1.05
Net income	**37,172**	15,118	6,670	13,159	10,324
Per diluted share [(a)]	**3.52**	1.50	0.63	1.35	1.05
Percent of net sales	**2.3%**	1.1%	0.6%	1.2%	1.1%
Percent to stockholders' equity [(b)]	**17.9%**	7.8%	3.8%	7.9%	6.3%
Percent return on invested capital [(c)]	**8.21%**	5.92%	4.51%	5.60%	4.97%
Cash dividends paid	**8,863**	8,431	8,149	7,869	7,731
Per common share	**0.8500**	0.8250	0.8050	0.7850	0.7725
Depreciation and amortization	**36,928**	37,176	38,384	38,769	39,169
Capital expenditures	**49,778**	39,815	45,970	41,519	33,766
Weighted-average common shares outstanding	**9,566**	9,316	9,133	9,005	8,970
As of year end					
Working capital	**$ 116,288**	$ 92,954	$ 87,974	$ 96,344	$ 77,882
Current ratio	**1.5**	1.5	1.5	1.6	1.5
Property, plant and equipment, net	**238,166**	234,062	225,604	211,119	208,870
Total assets	**611,897**	573,185	546,055	516,159	492,776
Long-term debt obligations	**104,725**	96,939	107,403	108,945	94,018
Stockholders' equity	**208,144**	206,051	180,786	166,834	168,241
Per share [(d)]	**20.27**	20.69	18.33	17.19	17.42
Number of employees	**1,578**	1,525	1,528	1,510	1,420

(a) Based on weighted-average number of common shares outstanding during the year.
(b) Based on average equity.
(c) Defined as net operating profit after taxes divided by invested capital.
(d) Based on common shares and the assumed conversion of the convertible preferred shares outstanding at year end.

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 24, 2009) are included in the Company's 2008 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, which is available on request or via Web site at www.stepan.com.

Quarterly financial data

In thousands, except per share data	*First*	*Second*	*Third*	*Fourth*	*Year*
2008					
Net sales	**$ 381,451**	**$ 420,399**	**$ 432,947**	**$ 365,333**	**$ 1,600,130**
Gross profit	**45,858**	**50,001**	**42,785**	**30,893**	**169,537**
Interest, net	**(2,347)**	**(2,573)**	**(2,447)**	**(2,147)**	**(9,514)**
Income before income taxes and minority interest	**12,797**	**14,510**	**24,410** (a)	**3,161**	**54,878**
Net income	**8,747**	**9,761**	**17,000**	**1,664**	**37,172**
Per diluted share	**0.85**	**0.93**	**1.59**	**0.15**	**3.52**
2007					
Net sales	$ 313,004	$ 336,156	$ 338,398	$ 342,343	$ 1,329,901
Gross profit	34,809	38,274	34,868	33,445	141,396
Interest, net	(2,308)	(2,515)	(2,395)	(2,512)	(9,730)
Income before income taxes and minority interest	8,080	7,459 (b)	4,555	3,621	23,715
Net income	5,687	4,737	3,086	1,608	15,118
Per diluted share	0.56	0.47	0.31	0.15	1.50

(a) Includes an $8.5 million gain on sale of land and $9.9 million gain on the sale of select polyurethane systems product lines.
(b) Includes a $4.3 million gain on the sale of the Company's specialty esters product line and a $3.5 million impairment charge for Stepan UK's goodwill.

QUARTERLY STOCK DATA

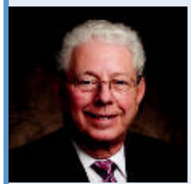
	Stock price range per share				*Dividends paid per common share*	
Quarter	*2008 high*	*2008 low*	*2007 high*	*2007 low*	*2008*	*2007*
First	**$ 38.51**	**$ 27.75**	$ 32.01	$ 25.14	**21.00¢**	20.50¢
Second	**$ 46.45**	**$ 37.23**	$ 31.99	$ 25.61	**21.00¢**	20.50¢
Third	**$ 60.82**	**$ 41.74**	$ 32.94	$ 26.66	**21.00¢**	20.50¢
Fourth	**$ 55.27**	**$ 28.62**	$ 35.00	$ 28.99	**22.00¢**	21.00¢
Year	**$ 60.82**	**$ 27.75**	$ 35.00	$ 25.14	**85.00¢**	82.50¢

Corporate officers

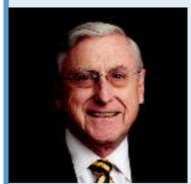
BOARD OF DIRECTORS

F. Quinn Stepan
Chairman

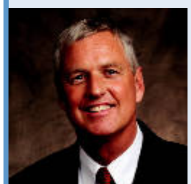
F. Quinn Stepan, Jr.
President and Chief Executive Officer



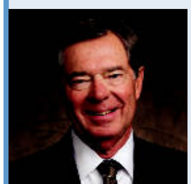
Robert D. Cadieux
Former President and Chief Executive Officer
Air Liquide America Corp., a manufacturer of industrial gases, Walnut Creek, California



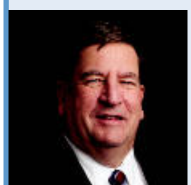
Thomas F. Grojean
Chairman and Chief Executive Officer
Grojean Transportation, a nationwide truckload freight carrier, Eagan, Minnesota



Gregory E. Lawton
Former President and Chief Executive Officer
JohnsonDiversey, Inc., a global provider of cleaning and hygiene solutions to the institutional and industrial marketplace, Sturtevant, Wisconsin



Robert G. Potter
Former Chairman and Chief Executive Officer
Solutia Inc., a manufacturer of performance chemicals and specialty chemicals, St. Louis, Missouri



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

OFFICERS

F. Quinn Stepan
Chairman

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

James E. Hurlbutt
Vice President and Chief Financial Officer

Frank Pacholec
Vice President, Research and Development

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

Anthony J. Zoglio
Vice President, Supply Chain

Kathleen O. Sherlock
Assistant General Counsel and Assistant Secretary

DEPARTMENTAL VICE PRESIDENTS

International

Charles A. Brown
Vice President, Latin America

Anthony Martin
Vice President, Europe

Manufacturing

Edward T. C. Hyer
Vice President, Plant Operations, The Americas

Robert S. Mangold
Vice President, Manufacturing & Engineering

Purchasing

Arthur W. Mergner
Vice President, Procurement

Edmund A. Perreault
Vice President, Purchasing
(retiring April 1, 2009)

Richard H. Wehman, Jr.
Vice President, Strategic Purchasing

Research and Development

Matthew I. Levinson
Vice President, Global Process Development

Surfactants

Scott R. Behrens
Vice President, Business Management

Edward H. Buening
Vice President, Surfactant Sales

Jeffrey E. Grahn
Vice President, Product Management

James S. Pall
Vice President, Corporate Development

Corporate information

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
Chicago 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 Web site at www.stepan.com

Annual Meeting
The 2009 Annual Meeting for the Stockholders of the Company will be held at 9:00 a.m., Tuesday, April 21, 2009, 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 Web site at www.stepan.com within the Investor Relations section of the site. At the same Web site location, Stepan provides an Ethics Hotline phone number 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. The CEO/CFO certifications required under Section 302 of the Sarbanes-Oxley Act were filed as exhibits to the Company's 2008 Form 10-K that was filed with the Securities and Exchange Commission on February 27, 2009. In addition, the Company submitted the Section 12(a) CEO certification to the New York Stock Exchange on May 9, 2008.

Stepan ®

Northfield, Illinois 60093
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DESIGN: COR CREATIVE, INC., CHICAGO

Stepan

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