2004 ANNUAL REPORT

FOCUS

on our strengths:

Core markets | Core technologies | Core customers

Stepan

About Our Company

STEPAN IS A LEADING MERCHANT PRODUCER OF SURFACTANTS which are the key ingredients in consumer and industrial cleaning compounds. Manufacturers of detergents, shampoos, body wash, soap bars, lotions, toothpastes and cosmetics depend on surfactants to achieve the foaming and cleaning qualities of their products. Stepan also produces fabric softeners and germicidal quaternary compounds. 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. Stepan produces other specialty products which are often custom-made to meet individual needs. These include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industries. The Company is also a principal supplier of phthalic anhydride, a commodity chemical intermediate which is used in polyester resins, alkyd resins and plasticizers. Polyurethane polyols and foam systems sold by the Company are used in the thermal insulation market primarily by the construction and appliance industries. Headquartered in Northfield, Illinois, Stepan utilizes a network of modern production facilities located in North and South America, Europe and Asia.

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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 wash, soap bars, lotions, toothpastes and cosmetics. 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 76 percent of Stepan's 2004 sales or $709,487,000 versus $620,096,000 in 2003. The increase in sales is due to higher selling prices resulting from higher raw material costs coupled with the favorable translation effect of foreign sales against the weaker dollar. Sales volume increased three percent.

Domestic surfactant operations, representing 63 percent of surfactants, recognized a $47.7 million, or 12 percent, increase in sales on a one percent increase in volume. Foreign operations representing 37 percent of surfactants, reported a $41.7 million, or 19 percent, increase in sales with volume increasing seven percent.

POLYMERS

The polymer product group includes phthalic anhydride, polyurethane polyols, and polyurethane systems. Phthalic anhydride is used internally to make polyurethane polyols and externally in polyester resins, alkyd resins, and plasticizers for applications in construction materials and components of automotive, boating, and other consumer products. Polyurethane polyols and polyurethane systems are used in the manufacture of rigid foam for the construction industry. These products provide thermal insulation and are sold to the construction, industrial and appliance markets. Stepan's polyols are also a base raw material for coatings, adhesives, sealants and elastomers.

Polymer sales represent 21 percent of 2004 sales, or $199,235,000 versus $139,785,000 in 2003, an increase of 43 percent. Sales volume rose 17 percent. Higher selling prices due to higher raw material costs contributed to 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 2004 were $27,094,000 versus $24,974,000 for 2003. Specialty products represent three percent of net sales.

Production Facilities

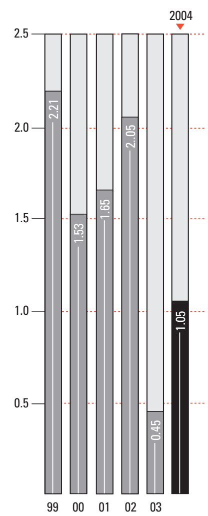
Millsdale (Joliet), Illinois
Anaheim, California
Fieldsboro, New Jersey
Maywood, New Jersey
Winder, Georgia
Longford Mills, Ontario, Canada
Matamoros, Mexico
Manizales, Colombia
Vespasiano, Brazil
Stalybridge, United Kingdom
Voreppe (Grenoble), France
Wesseling (Cologne), Germany
Bauan, Batangas, Philippines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

Stock Information

(New York Stock Exchange, symbol SCL)

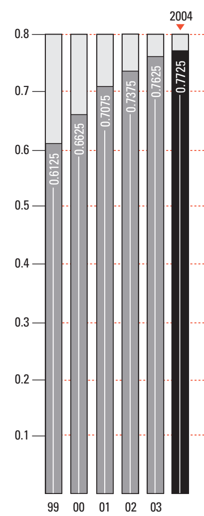
	2004	2003
Stock price range	$ 21.70–26.15	$ 21.55–26.80
Dividend (Common)	$ 0.7725	$ 0.7625
Dividend (Preferred)	$ 1.375	$ 1.375
Earnings per diluted share	$ 1.05	$ 0.45
Return on equity	6%	3%
Book value	$ 17.42	$ 16.89
Shares outstanding	8,993,110	8,933,594

Net Income Per Diluted Common Share
(Dollars)



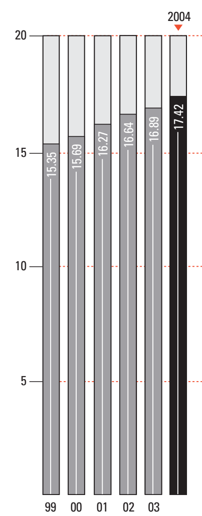
Compound Annual Growth
Five Years -14%

Dividends Per Common Share
(Dollars)



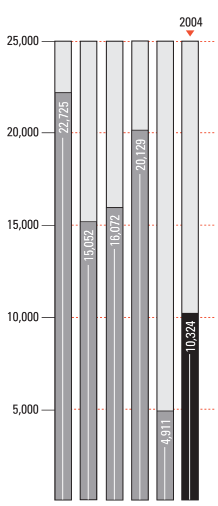
Compound Annual Growth
Five Years +5%

Equity Per Share
(Dollars)



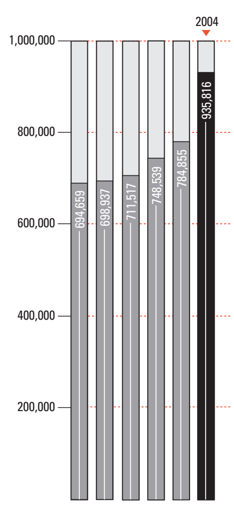
Compound Annual Growth
Five Years +3%

Net Income
(Dollars in thousands)



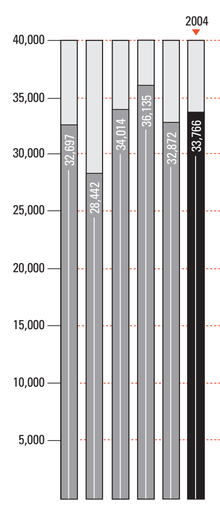
Compound Annual Growth
Five Years -15%

Net Sales
(Dollars in thousands)



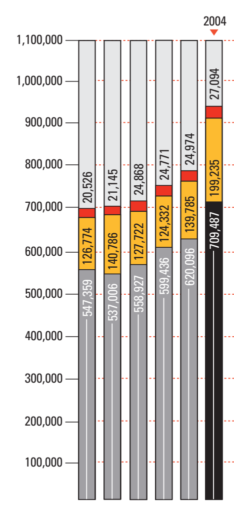
Compound Annual Growth
Five Years +6%

Capital Expenditures
(Dollars in thousands)



Compound Annual Growth
Five Years +1%

Segment Sales
(Dollars in thousands)



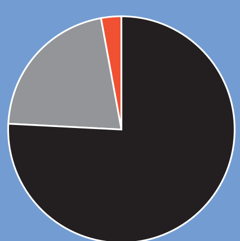
Specialty Products
Polymers
Surfactants

Financial Highlights

(In thousands, except per share and stockholder amounts)

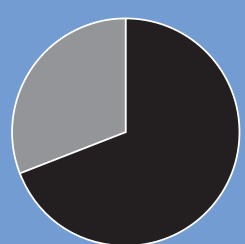
	2004	*2003*	*% Change (2004 vs. 2003)*	*2002*	*% Change (2003 vs. 2002)*
Net sales	**$ 935,816**	$ 784,855	+ 19	$ 748,539	+ 5
Net income	**10,324**	4,911	+110	20,129	– 76
Per diluted share	**1.05**	0.45	+133	2.05	– 78
Percent of net sales	**1.1%**	0.6%	+ 83	2.7%	– 78
Percent return on average equity	**6.3%**	3.1%	+103	12.9%	– 76
Depreciation and amortization	**39,169**	41,426	– 5	40,117	+ 3
Capital expenditures	**33,766**	32,872	+ 3	36,135	– 9
Dividends per common share	**77.25¢**	76.25¢	+ 1	73.75¢	+ 3
Working capital	**77,882**	71,521	+ 9	80,095	– 11
Current ratio	**1.5**	1.5	—	1.8	– 17
Long-term debt, less current maturities	**94,018**	92,004	+ 2	104,304	– 12
Stockholders' equity	**168,241**	162,067	+ 4	158,829	+ 2
Stockholders' equity per share	**17.42**	16.89	+ 3	16.64	+ 2
Average common shares outstanding	**8,970**	8,889	+ 1	8,861	—
Number of stockholders	**1,124**	1,205	– 7	1,253	– 4

2004 Product Line Sales
(Dollars in thousands)



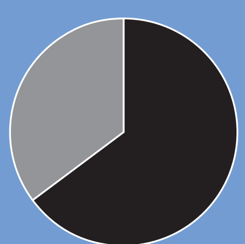
- Surfactants **$709,487**
- Polymers **$199,235**
- Specialty Products **$27,094**

2004 Global Sales
(Dollars in thousands)



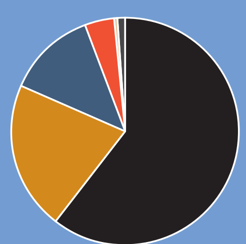
- United States **$646,523**
- Others **$289,293**

2004 Long Lived Assets
(Dollars in thousands)



- United States **$135,302**
- Others **$73,568**

2004 Sales Dollar Distribution
(Dollars in thousands)



- Material **$565,896** 60.4%
- Other Expenses **$197,366** 21.1%
- Payroll and Fringes **$118,741** 12.7%
- Depreciation and Amortization **$39,169** 4.2%
- Income Taxes **$4,320** 0.5%
- Net Income **$10,324** 1.1%

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

2004 WAS A YEAR OF SIGNIFICANT CHALLENGE

for the chemical industry with rapidly escalating raw material prices coupled with periodic shortages in key raw materials. Yet, it was also a year when Stepan made progress on its path to improved profitability by focusing on our strengths in core markets, technologies and customers.

Net income for the year increased to $10.3 million, or $1.05 per diluted share, up from the $4.9 million, or $0.45 per diluted share, reported in 2003. Earnings were up in North America and Latin America, but these improvements were partially offset by a significant decline in Europe where rapidly rising raw materials costs could not be recovered with higher prices. North American earnings were also reduced by rising raw material costs, which resulted in a last-in, first-out (LIFO) inventory charge that reduced net income by $4.4 million, or $0.49 per diluted share.

Consolidated operating income rose to $19.2 million from $9.8 million for the prior year. Our polymer segment contributed most of the improvement on a 17 percent increase in global volume. Prior year results also included severance costs, an asset impairment charge and higher deferred compensation costs.

Net sales for the year rose 19 percent to $936 million, up from the $785 million reported last year. Sales volume increased five percent, reflecting our continuing efforts to grow our business in key market segments. Higher selling prices due to higher raw material costs and foreign currency translations contributed $111 million to our increase in net sales.

Surfactant sales, which represent 76 percent of the Company's revenue, increased in 2004, with particularly strong performances in the fabric softener, agricultural, emulsion polymerization and specialty foamer market segments. While our global product teams continued to make progress with large, multinational accounts, we also established a dedicated North American sales force to serve regional customers in the general surfactant market. This reorganization helped our Company focus on more companies with more specialized products. We expect this initiative will increase our overall surfactant profitability in 2005.

Polymer earnings in 2004 rose 31 percent on a 17 percent increase in volume. All polymer product lines posted higher volume and all of our production facilities are currently near capacity. We are exploring ways to debottleneck our Millsdale, Illinois, plant to gain additional capacity to meet anticipated demand for polyurethane polyols in 2005. Reversing the trend of recent years, phthalic anhydride (PA) earnings improved on both higher margins and volume. Polyurethane polyol and polyurethane systems sales volume and earnings were also up; polymers represent 21 percent of the Company's revenues.

Specialty product earnings rose 17 percent on higher volume in most product categories. Specialty products represent three percent of the Company's revenues.

During 2004, we continued our efforts to build Stepan into a successful global enterprise. One step in our globalization strategy was the acquisition of an 82,000-ton sulfonation plant from Unilever in Vespasiano, Brazil. This plant will enable us to better serve existing customers with local production in the growing Brazilian market. We also plan to diversify the plant and add new blending capabilities that will allow us to serve Brazil's dynamic agricultural market, the fastest growing in the world. With this acquisition, which closed in January 2005, Stepan now has surfactant manufacturing capabilities to support most Latin American markets with plant locations in Mexico, Colombia and Brazil.

Europe, another key area in our globalization strategy, continued to be challenging in 2004, particularly in Germany and the U.K. Surfactant sales volumes increased, but margins deteriorated because only a portion of the raw material price increases could be recovered in the marketplace. We continue to explore ways to improve profitability in these markets through more effective use of existing assets and better product mix. We have just been granted initial governmental approval to double capacity at our plant in Voreppe, France.

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

F. QUINN STEPAN
Chairman
and Chief Executive Officer

We expect final approvals in the third quarter of 2005. This will allow us to better serve our growing fabric softener and other specialty chemical business in Europe.

During September, there was a fire in the Company's Stalybridge, U.K., plant that shut down one of our detergent drying operations. No one was injured in the fire and the damaged equipment is covered by insurance. In October, a major detergent competitor announced its intention to close its U.K. facility. As a result of these events, we are debottlenecking our sulfonation plant and studying other opportunities to serve this market. We are optimistic about the potential for improved profitability in the U.K. as a result of industry consolidation.

In Germany, Stepan's 30,000-ton polyurethane polyol production facility, which came on line in the summer of 2003, is now operating at a high percentage of capacity. We anticipate that this plant will be a significant contributor to polymer earnings in 2005.

We will also increase our polyol capabilities to serve the large and growing Asian market. In February 2004, Stepan announced a joint venture with Jinling Petrochemical Corporation to build a 20,000-ton polyol plant in Nanjing, China. This project is on budget and on time and is expected to become operational early in the second quarter of 2005. We have opened a Stepan sales office and laboratory in Shanghai, China, to provide support for both our polymers and surfactant businesses.

The boards of directors of both Stepan and our Philippine joint venture recently approved an investment of $9.4 million to build a fabric softener plant in the Philippines. Our goal is to gain significant market share in the Asian market where

TO OUR SHAREHOLDERS CONTINUED

demand for fabric softeners is growing. We expect construction to begin in 2005 with production available in 2006.

In November 2004, Stepan announced that the Company reached an agreement with the United States Department of Justice regarding environmental remediation work to be completed at the Company's site in Maywood, New Jersey. Under the terms of the settlement, the United States and the Company agreed to fulfill the terms of a Cooperative Agreement reached in 1985. This agreement calls for the government to take responsibility for radiological waste removal and past and future radiological remediation costs. We are pleased to have this matter resolved satisfactorily with no need to adjust our environmental reserves as a result of the settlement.

In October of 2004, the board of directors declared a 1.3 percent increase in the Company's quarterly cash dividend on its common stock to $0.195 per share, bringing the annual dividend rate to $0.78 per share. This marks the thirty-seventh consecutive year in which the quarterly dividend on our common stock has been increased.

In 2004, Samuel Eberts, who had served as Stepan's vice president, general counsel and secretary since 2001, resigned from the Company. We appreciate Mr. Ebert's wise counsel and thank him for his many contributions to the Company. We are fortunate that Richard S. Brennan agreed to join Stepan as vice president, general counsel and secretary. Mr. Brennan brings a broad range of legal experience to our Company after a long career with the law firm of Mayer, Brown, Rowe & Maw LLP.

As we look back over the past year, we wish to extend a special thanks to Stepan's dedicated and hard working employees and management team. Once again, their skills and resourcefulness have resulted in major accomplishments for the Company.

- In July, a core team completed the roll out in France and Germany of Stepan One, the Company's integrated information system. With this installation completed, virtually the entire Company can exchange information on one seamless, real time environment, an important step in our globalization process.

- Thanks to the vigilance and commitment of our manufacturing and research and development teams, 2004 was the safest year in the Company's history. This year, our Millsdale plant achieved the prestigious Star status in the Occupational Health & Safety Administration's voluntary protection program to promote effective safety and health management.

- At the end of 2003, we asked for a company-wide focus on cost reduction and we're gratified by what our employees have accomplished this year. Once again, employees found innovative ways to improve efficiencies and cut costs — achieving more than $6.0 million in cost savings this year through various suggestions and improvements.

Looking ahead, we are confident that the Company has the right foundation — leadership in key markets, expertise in core technologies, and strong customer bonds — to continue on our path to improved profitability. The momentum we have built from this combination of strengths is the reason we are moving forward with optimism. We expect 2005 to be a better year for the Company and the Shareholders. Thank you for your investment in Stepan Company.

F. Quinn Stepan
Chairman of the Board and Chief Executive Officer

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

FOCUS on our strengths:

Core Markets | Core Technologies | Core Customers

Today's intensely competitive global chemical industry is extremely dynamic and demanding. As customer needs change and grow, so do their expectations of their key suppliers. Increasingly, customers want a few select suppliers who will work hand-in-hand with them to find innovative solutions — to anticipate trends and present new ideas based on knowledge of their particular markets and supply chains. Responding to these demands requires relentless focus and consistent standards of execution around the world.

How does a company the scale and scope of Stepan compete successfully in this global arena? By focusing on our traditional strengths — leadership in core markets, expertise in versatile technologies, strong customer relationships, skilled and dedicated staff. These assets are the foundation of our Company and key factors in our success. They also provide a springboard into the future. Our ongoing initiatives to drive profitable growth through execution and innovation are beginning to yield results, helping to propel Stepan on its path to improved profitability.

Growing in Key Markets

Maintaining our leadership in core markets has long been a Stepan strategic priority. This year marked a turning point as a number of ongoing initiatives began producing results after several years of investment.

In the personal care segment, one of the areas we targeted for growth with an internally developed technology is the soap bar segment, particularly bars that include some amount of synthetic detergent to improve performance and skin feel. We made progress this year as Stepan technology was integrated into one of industry's most popular combination soap bars. We are pursuing global opportunities in the fastest growing segment of the soap bar market.

We also continue to find customer acceptance in the fabric softener market for our esterquat technology. Decades ago, Stepan pioneered a biodegradable and highly concentratable system for fabric softeners and it has become the formulation of choice throughout the U.S. and Europe. Now interest is growing among multinational companies for additional global applications, as consumption of fabric softeners in Asia and Latin America increases.

Based on growing demand, Stepan recently added capacity to produce esterquats for fabric softeners at its European and American locations, including an investment of more than $4 million in our facility in Matamoros, Mexico. Utilization of this new capacity was very high as these esterquats were integrated into a major customer's new product formulation to be sold in the Latin American market. Stepan continues its multi-pronged initiative to grow our share of this important core market.

Fabric Softener Team

During 2004, our Fabric Softener team found new opportunities for Stepan's esterquat technology as a growing number of companies sought ways to standardize around one formulation for a product worldwide in an effort to "harmonize" their manufacturing processes and achieve economies of scale in marketing and purchasing. (Left to right) Brian Frank, Sandy Tschantz, Len Zaporowski, Rob Caro, Dennis DeSalvo, Marty Benson, and Marshall Nepras. Team members not pictured include: Didier Ray, Stephane Courdavault, and Mark Stanek.

Maximizing Core Technologies

During 2004, Stepan continued its strategy of using global teams to harness the energy and expertise of our employees to serve customers around the world. Business teams organized around global markets focus on better ways to meet customer needs and drive growth in our surfactant business. Strategic account teams, organized to serve specific multinational customers, develop better ways to share information and define and implement account strategies around the world.

We are also using a team approach to maximize the potential of our core technologies — key competitive advantages that help to differentiate Stepan in the marketplace. Stepan currently has five technology platform teams organized around specific core manufacturing capabilities, such as sulfonation or alkoxylation, that serve multiple customers in different markets. These cross-functional, multi-departmental teams call upon talent and resources from across the Company and around the world, including representatives from marketing, research and development, engineering and manufacturing.

Technology Platform Teams

Stepan's technology platform teams are cross-functional, multi-departmental teams organized around specific core product platforms that serve multiple customers in different markets. The charters of the teams are global in scope. Specifically they are charged with:

- Assessing the competitive environment on a continual basis to help Stepan stay current with developing technologies.
- Identifying and developing new products and researching new molecules and new processes to ensure that Stepan is at the leading edge of product innovation and quality.
- Allocating existing resources for maximum productivity and flexibility, as well as determining long-term capacity planning so that Stepan has the ability to meet its future growth targets.
- Identifying and implementing industry best practices on a global basis.
- Providing a consistent level of performance and quality in Stepan locations around the world.

Teams in Action

Stepan's fabric softener technology platform team was formally launched in 2003 to take advantage of two evolving trends in the global marketplace. First, a growing number of companies are exploring ways to make their products more environmentally friendly by using biodegradable materials. Second, many companies are looking to standardize around one formulation for a product worldwide in an effort to "harmonize" their products and achieve economies of scale in marketing and purchasing. Stepan's esterquat systems fit the bill on both counts.

The fabric softener technology platform team was involved in every step of the process to expand our Matamoros, Mexico, facility to take advantage of new market opportunities. Working with customers, Stepan sales and marketing personnel, and Stepan plant personnel, the team marshaled resources from Company locations around the world, allocated equipment and other assets, developed and tested new products for customer approval, and instituted process and quality improvements. The Matamoros softener plant is now operating at near capacity and has cut its production cycle time in half.

The team also launched an initiative to grow the Company's fabric softener dryer sheet business, a market where Stepan was not a major player. Acceptance of our technology is growing because of its unique performance benefits and we anticipate further growth in the year ahead. The team will also be involved in the planned addition of fabric softener production capabilities at the Stepan Philippines' plant. With a manufacturing location in Asia, Stepan will be able to provide customers one of the industry's strongest global production networks for fabric softener technology.

Another technology platform team is organized around alkoxylation — a Stepan core technology used in a broad range of products including laundry and cleaning, personal care, agricultural, and polyol chemicals. As with all the technology platform teams, this team is charged with improving profitability and return on invested capital in their area of expertise. Because they serve different departments with sometime competing requirements, the technology platform teams must determine how to most effectively use existing assets, and when and where to build new plants. They also concentrate on innovation — researching new processes and new formulations, and ensuring that Stepan stays on the leading edge of technology, safety and product quality.

Working with the global business teams, the alkoxylation platform team launched six new products in 2004, including specialty products for industrial lubricant applications, a new feedstock for emulsion polymerization surfactants, and a specialty product used in flexible polyurethane foams.

Stepan's core technologies are a fundamental strength of the Company. Through the technology platform teams, we will continue to find new ways to maximize the potential of these core technologies to grow our business and increase profitability.

Innovation Team

Stepan's Innovation Team helps speed the process of developing ideas to generate profitable growth and move products more quickly to commercialization. Working closely with the businesses, team members identify market and technology trends, map out and validate the trends and determine areas with the most potential for Stepan. (Left to right) Randy Bernhardt, Tom Waldman, Rick Tabor, and Frank Pacholec.

Finding Long-Term Solutions

A critical component of Stepan's strategy to enhance growth and profitability is our long-term commitment to research and development. With its size and scope, Stepan is in an ideal position to capitalize on new R&D opportunities — large enough to have the depth of resources to commit to exploration, yet flexible and nimble enough to act with speed and decisiveness when opportunities arise.

To help speed the innovation process within Stepan, we have created a new group within our research and development function to develop ideas to generate profitable growth and improve our processes to move products more quickly to commercialization. This small group is working closely with the business teams to identify market and technology trends, map out and validate the trends, and determine areas where Stepan can best take advantage of the trends.

Throughout 2004, we continued our focus on establishing a disciplined approach to research and development that is responsive both to customer requirements and Stepan's need to develop technologies that will contribute to the long-term growth and health of the Company. The Company is moving a greater percentage of its R&D budget, approximately 40 percent, to longer term research projects.

We are very encouraged by the projects in the research and development pipeline, as the Company's future growth and profitability depend upon our ability to innovate for the economic benefit of our customers. We will continue to serve our core markets, technologies and customers — the backbone of the Company and the reasons for our success — with passion and commitment. We will embrace with enthusiasm and optimism the new markets and opportunities that lie ahead for Stepan.

Five Year Summary

(In thousands, except per share and employee data)

	2004	2003	2002	2001	2000
For the Year					
Net Sales	$ 935,816	$ 784,855	$ 748,539	$ 711,517	$ 698,937
Operating Income	19,179	9,796	33,930	30,832	31,358
Percent of Net Sales	2.0%	1.2%	4.5%	4.3%	4.5%
Pre-tax Income	14,633	5,271	30,268	25,798	24,475
Percent of Net Sales	1.6%	0.7%	4.0%	3.6%	3.5%
Provision for Income Taxes	4,320	360	10,139	9,726	9,423
Net Income	10,324	4,911	20,129	16,072	15,052
Per Diluted Share *(a)*	1.05	0.45	2.05	1.65	1.53
Percent of Net Sales	1.1%	0.6%	2.7%	2.3%	2.2%
Percent to Stockholders' Equity *(b)*	6.3%	3.1%	12.9%	10.6%	10.0%
Cash Dividends Paid	7,731	7,579	7,339	7,056	6,730
Per Common Share	0.7725	0.7625	0.7375	0.7075	0.6625
Depreciation and Amortization	39,169	41,426	40,117	39,972	39,277
Capital Expenditures	33,766	32,872	36,135	34,014	28,442
Weighted-average Common Shares Outstanding	8,970	8,889	8,861	8,837	8,948
As of Year End					
Working Capital	$ 77,882	$ 71,521	$ 80,095	$ 72,628	$ 68,008
Current Ratio	1.5	1.5	1.8	1.7	1.7
Property, Plant and Equipment, net	208,870	210,665	211,050	211,433	198,147
Total Assets	492,776	464,217	439,667	438,755	417,592
Long-term Debt, less current maturities	94,018	92,004	104,304	109,588	96,466
Stockholders' Equity	168,241	162,067	158,829	154,351	149,059
Per Share *(c)*	17.42	16.89	16.64	16.27	15.69
Number of Employees	1,420	1,447	1,529	1,491	1,387

(a) Based on weighted-average number of common shares outstanding during the year.
(b) Based on average equity.
(c) 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 Public Company Accounting Oversight Board (United States).

Copies of the full consolidated financial statements and of the independent registered public accountants' report that expressed an unqualified opinion (dated February 24, 2005) are included in the Company's 2004 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, which is available on request or via Web site at www.stepan.com.

Using Stepan Products

CONSUMER & INDUSTRIAL PRODUCTS



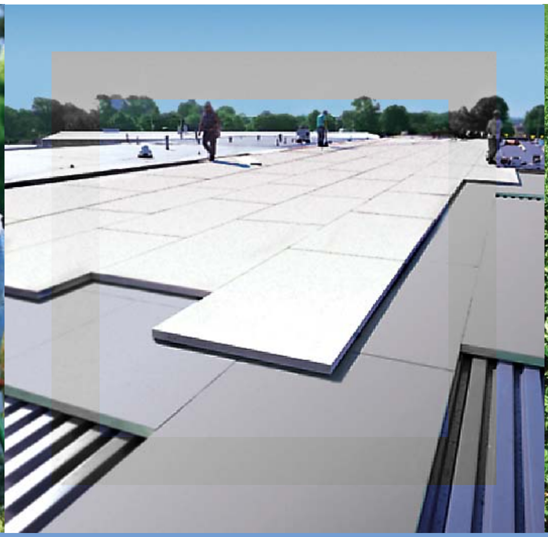
LAUNDRY & CLEANING All-purpose cleaners | Bathroom cleaners | Carpet steam extraction | Carpet shampoos | Car wash detergents | Car wash spray wax emulsifiers | Cooling tower biocides | Dishwashing detergents | Disinfectants and sanitizers | Drain cleaners | Dry cleaning detergents | Fabric softener 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 | Anti-perspirants | Baby shampoos | Bar soaps | Bath oils | Bath products | Bubble baths | Cleansing creams | Combo bars | Conditioning shampoos | Dentifrices | Deodorants | Facial preparations | Glosses | Hair conditioners | Hair rinses | Leave-on conditioners | Lipsticks | Liquid hand soaps | Make-up preparations | Medicated ointments | Moisturizers | Mousses | Ointments | Personal care cleansing preparations | Powdered bubble baths | Pre-shave lotions | Shampoos | Shaving creams | Skin creams | Skin lotions | Sunscreen products | Suppositories | Styling aids | Syndet bars

FOOD & PHARMACEUTICAL INGREDIENTS Confections | Energy bars and drinks | Flavors | Nutritional beverages | Pharmaceutical excipients

INDUSTRIAL SURFACTANTS Adhesives | Architectural coatings | 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

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: Footware, toys, luggage, bookbindings, garden hoses, outerware, 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: IV 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/coating: 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



Quarterly Financial Data

(Dollars in thousands, except per share data)

Quarter	*First*	*Second*	*Third*	*Fourth*	*Year*
2004					
Net Sales	$ 221,387	$ 236,347	$ 238,697	$ 239,385	$ 935,816
Gross Profit	29,652	30,496	26,207	24,612	110,967
Interest, net	(2,061)	(1,792)	(1,704)	(1,680)	(7,237)
Pre-tax Income	5,926	5,586	2,766	355	14,633
Net Income	4,030	3,802	1,891	601	10,324
Net Income per Diluted Share	0.42	0.39	0.19	0.04	1.05
2003					
Net Sales	$ 187,080	$ 200,429	$ 196,066	$ 201,280	$ 784,855
Gross Profit	25,106	30,181	26,893	21,559	103,739
Interest, net	(2,184)	(2,035)	(2,034)	(1,808)	(8,061)
Pre-tax Income/(loss)	3,440	7,159	1,765	(7,093)	5,271
Net Income/(loss)	2,288	4,760	1,298	(3,435)	4,911
Net Income/(loss) per Diluted Share	0.23	0.49	0.12	(0.41)	0.45

Quarterly Stock Data

	Stock Price Range Per Share				*Dividends Paid Per Common Share*	
Quarter	*2004 High*	*2004 Low*	*2003 High*	*2003 Low*	*2004*	*2003*
First	$ 26.11	$ 21.70	$ 26.80	$ 21.55	19.25¢	19.00¢
Second	$ 26.15	$ 22.00	$ 26.20	$ 22.53	19.25¢	19.00¢
Third	$ 25.55	$ 22.70	$ 25.44	$ 22.78	19.25¢	19.00¢
Fourth	$ 25.95	$ 23.72	$ 26.00	$ 23.00	19.50¢	19.25¢
Year	$ 26.15	$ 21.70	$ 26.80	$ 21.55	77.25¢	76.25¢

Corporate Information

BOARD OF DIRECTORS

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

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

F. QUINN STEPAN
Chairman and Chief Executive Officer

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

PAUL H. STEPAN
Chairman, SA Inc., a real estate development firm, Chicago, Illinois

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

Board of Directors
(Left to right) Paul H. Stepan, Robert D. Cadieux, Edward J. Wehmer, F. Quinn Stepan, Jr., F. Quinn Stepan, Thomas F. Grojean and Robert G. Potter.

OFFICERS

F. QUINN STEPAN
Chairman and Chief Executive Officer

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

RICHARD S. BRENNAN
Vice President, General Counsel and Secretary

JAMES E. HURLBUTT
Vice President, Finance

FRANK PACHOLEC
Vice President, Research and Development

JOHN V. VENEGONI
Vice President and General Manager, Surfactants

ROBERT J. WOOD
Vice President and General Manager, Polymers

ANTHONY J. ZOGLIO
Vice President, Supply Chain

KATHLEEN M. OWENS
Assistant General Counsel and Assistant Secretary

DEPARTMENTAL VICE PRESIDENTS

INTERNATIONAL
EDWARD H. BUENING
Vice President, Europe

LOGISTICS
JAMES S. PALL
Vice President, Logistics

PURCHASING
EDMUND A. PERREAULT
Vice President, Purchasing

SURFACTANTS
GILBERT B. ESHOO
Vice President, General Surfactants

MATTHEW I. LEVINSON
Vice President, Product Development — Surfactants

GREGORY SERVATIUS
Vice President, Surfactant Sales

CORPORATE INFORMATION

COUNSEL
MAYER, BROWN, ROWE & MAW LLP
Chicago, Illinois

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
DELOITTE & TOUCHE LLP
Chicago, Illinois

TRANSFER AGENT AND REGISTRAR
COMPUTERSHARE INVESTOR SERVICES, LLC
2 North LaSalle St., Chicago, Ill. 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 2005 Annual Meeting for the Stockholders of the Company will be held at 9:00 a.m., Tuesday, April 26, 2005, 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 2004 Form 10-K that was filed with the Securities and Exchange Commission on March 4, 2005. In addition, the Company submitted the Section 12(a) CEO certification to the New York Stock Exchange on April 28, 2004.

Stepan
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