



*Our first billion*

BUILDING FROM A STRONG FOUNDATION



# Stepan

Stepan is a leading merchant producer of surfactants which are the key ingredients in consumer and industrial cleaning compounds. Manufacturers of detergents, shampoos, 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 refrigeration industries. Headquartered in Northfield, Illinois, Stepan utilizes a network of modern production facilities located in North and South America, Europe, China and the Philippines.

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## 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, 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 2005 sales or \$823,603,000 versus \$709,487,000 in 2004. The increase in sales is due to a 10 percent increase in volume coupled with higher selling prices resulting from higher raw material costs.

Domestic surfactant operations, representing 64 percent of surfactants, recognized an \$80 million, or 18 percent, increase in sales on a six percent increase in volume. Foreign operations, representing 36 percent of surfactants, reported a \$34 million, or 13 percent, increase in sales with volume increasing 20 percent.

## 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)

## polymers

The polymer product group includes phthalic anhydride, polyurethane polyols, and polyurethane systems. 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. Polyurethane polyols and polyurethane systems are used in the manufacture of rigid foam for use as thermal insulation and are sold to the construction, industrial and appliance markets. Stepan's polyols are also a base raw material for flexible foams, coatings, adhesives, sealants and elastomers.

Polymer sales represent 21 percent of 2005 sales, or \$228,457,000 versus \$199,235,000 in 2004, an increase of 15 percent. Higher selling prices due to higher raw material costs caused the increase in sales. Volume declined nine percent on weaker rigid foam insulation sales in the construction industry.

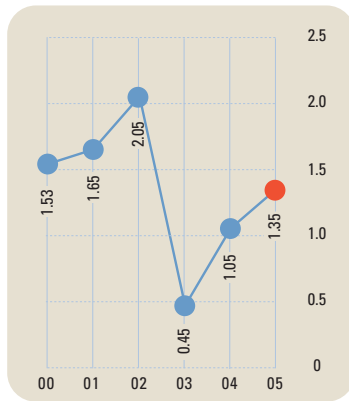
## specialty products

Specialty products include flavors and emulsifiers and solubilizers used in the food and pharmaceutical industry. Sales for specialty products for 2005 were \$26,317,000 versus \$27,094,000 for 2004. Specialty products represent three percent of net sales.

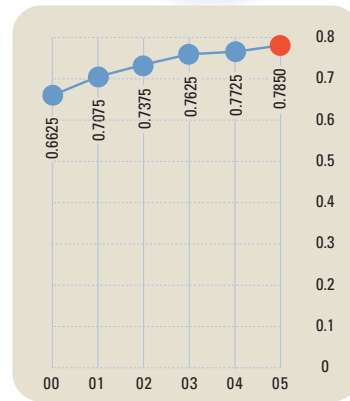
# stock information

{New York Stock Exchange, symbol SCL}

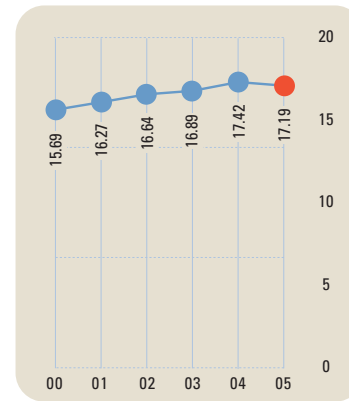
	2005	2004
Stock price range	\$ 20.80 – 27.48	\$ 21.70 – 26.15
Dividend (Common)	\$ 0.7850	\$ 0.7725
Dividend (Preferred)	\$\$ 1.375	\$\$ 1.375
Earnings per diluted share	\$\$ 1.35	\$\$ 1.05
Return on equity	8%	6%
Book value	\$\$ 17.19	\$\$ 17.42
Shares outstanding	9,040,544	8,993,110



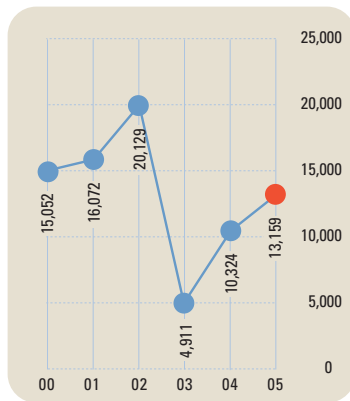
Net Income Per Diluted Common Share  
{DOLLARS}



Dividends Per Common Share  
{DOLLARS}



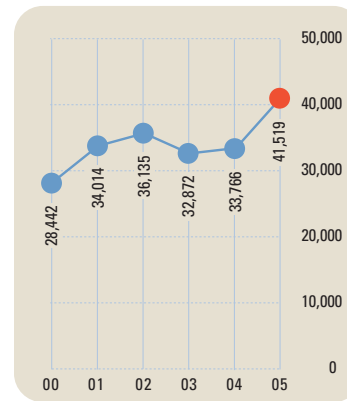
Equity Per Share  
{DOLLARS}



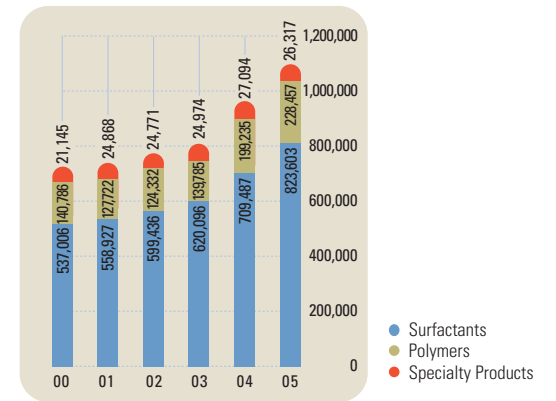
Net Income  
{DOLLARS IN THOUSANDS}



Net Sales  
{DOLLARS IN THOUSANDS}



Capital Expenditures  
{DOLLARS IN THOUSANDS}



Segment Sales  
{DOLLARS IN THOUSANDS}

● Surfactants  
● Polymers  
● Specialty Products

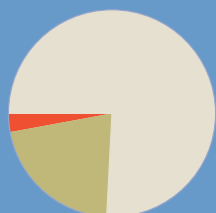
# financial highlights

{IN THOUSANDS, EXCEPT PER SHARE AND STOCKHOLDER AMOUNTS}

	2005	2004	% CHANGE {2005 vs. 2004}	2003	% CHANGE {2004 vs. 2003}
Net sales	\$1,078,377	\$935,816	+15	\$784,855	+19
Net income	13,159	10,324	+27	4,911	+110
Per diluted share	1.35	1.05	+29	0.45	+133
Percent of net sales	1.2%	1.1%	+9	0.6%	+83
Percent return on average equity	7.9%	6.3%	+25	3.1%	+103
Depreciation and amortization	38,769	39,169	-1	41,426	-5
Capital expenditures	41,519	33,766	+23	32,872	+3
Dividends per common share	78.50¢	77.25¢	+2	76.25¢	+1
Working capital	96,344	77,882	+24	71,521	+9
Current ratio	1.6	1.5	+7	1.5	-
Long-term debt, less current maturities	108,945	94,018	+16	92,004	+2
Stockholders' equity	166,834	168,241	-1	162,067	+4
Stockholders' equity per share	17.19	17.42	-1	16.89	+3
Average common shares outstanding	9,005	8,970	-	8,889	+1
Number of stockholders	1,044	1,124	-7	1,205	-7

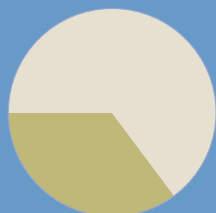
Information in this annual report contains forward looking statements which are not historical facts. These statements involve risks and uncertainties that could cause actual results to differ materially, including without limiting, cash flow, prospects for our foreign operations, and certain global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

2005 Product Line Sales  
{DOLLARS IN THOUSANDS}



- Surfactants \$823,603
- Polymers \$228,457
- Specialty Products \$26,317

2005 Long Lived Assets  
{DOLLARS IN THOUSANDS}



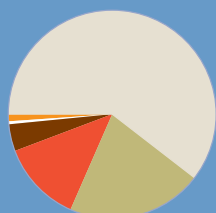
- United States \$139,491
- Others \$71,628

2005 Global Sales  
{DOLLARS IN THOUSANDS}



- United States \$751,962
- Others \$326,415

2005 Sales Dollar Distribution  
{DOLLARS IN THOUSANDS}



- Material \$675,201 62.6%
- Other Expenses \$215,566 20%
- Payroll and Fringes \$131,195 12.2%
- Depreciation and Amortization \$38,769 3.6%
- Income Taxes \$4,170 0.4%
- Net Income \$13,159 1.2%



# To our shareholders

In 2005 Stepan passed an important milestone — net sales surpassed \$1 billion for the first time. We celebrated this accomplishment, the result of 73 years of concerted effort by people throughout the Company to expand and grow our business, and made it the theme of this year's report. Yet as proud as we are of this achievement, we see it primarily as a stepping-stone to future growth and, more importantly, to improved profitability. ❁ In addition to sales growth, last year we also made progress increasing our profitability. Net income in 2005 was \$13.2 million, or \$1.35 per diluted share, up 27 percent from the \$10.3 million, or \$1.05 per diluted share, reported last year.

Both surfactants and polymers posted higher earnings. Surfactants' improvement was largely due to increased U.S. biodiesel, Mexican fabric softener and U.K. sulfate volumes. Polymer earnings increased on higher polyol and phthalic anhydride margins and record urethane systems results. Several noteworthy items affecting net income in 2005 were a gain from fire insurance proceeds at our plant in the U.K., which added \$1.1 million to net income, and deferred compensation plan expense that reduced net income by \$1.6 million. In addition, during a planned maintenance turnaround, our Millsdale, Illinois, plant experienced an electrical substation fire which resulted in extended downtime leading to lost sales and higher maintenance, utility and scrap material costs that reduced net income by approximately \$1.2 million.

Net sales for 2005 increased to \$1.1 billion, up 15 percent from the \$936 million reported last year. Higher selling prices, higher sales volume and the translation effect of foreign sales against a weaker U.S. dollar were the major contributors to the sales increase. Higher selling prices across virtually all our business lines reflect price increases brought on by rising raw material costs, largely attributable to the effect of higher crude oil and natural gas prices. Sales volume increased seven percent.

Surfactant sales, which account for 76 percent of the Company's revenues, rose in 2005, reflecting higher selling prices and an increase in volume in North America, primarily due to sales of biodiesel. Stepan also saw volume gains in the U.K., as a major competitor closed its manufacturing facility there, and in Latin America because of increased sales of fabric softeners.

Within Surfactants our base sulfonation business is slowly improving from the lost volume attributed to the

backward integration of two large customers in 2003. Profitability improved in 2005 due to a better product mix, a slight improvement in margins, lower capital spending, and higher volumes in Germany and the U.K. due to the shut down of competitive capacity. Our new plant in Vespasiano, Brazil, met expectations.

Our surfactant growth platforms contributed to our profit improvement in 2005. Specifically, the fabric softener team achieved record sales volume and profits. Recent investments in the U.S., the U.K. and Mexico are now all operating at or near capacity. The team actively shared best practices and reduced cycle times at each of our global fabric softener manufacturing facilities. We are adding capability to Stepan's joint venture plant in the Philippines to enable us to begin fabric softener production in the Asian market. Demand for fabric softeners is growing in Asia and Stepan will be well positioned to participate in this important market. We have customer commitments for a large portion of the plant output, which will be available in mid-2006.

In 2004, our oleochemical team began selling a surfactant intermediate, a coconut oil based C-16 – C-18 methyl ester that we produced, into the biodiesel market. Last year's surge in crude oil prices, coupled with new federal and state tax incentives dramatically increased the demand for biodiesel. The team used available assets at Millsdale to produce and sell 28,000 metric tons of soybean oil based methyl esters as biodiesel in 2005. The team sponsored a project that will expand capacity at Millsdale to 63,000 metric tons. The project will be complete during the first quarter 2006 and can accommodate further capacity expansion. Millsdale is a good location for biodiesel production due to its proximity to the large Chicago diesel market and to soybean oil production. Unlike many other biodiesel

producers, Stepan has the potential to use soybean methyl esters as a feedstock for its surfactant business.

Our secondary surfactant teams, specifically our amphoteric and cationic teams, also made progress in 2005. Amphoteric surfactants, amine oxides and betaines are used in the body wash, shampoo, liquid hand soap and dishwasher products. Stepan achieved record amphoteric sales and profits in 2005 and made investments in Canada and Colombia to support growth. Our cationic team was reconfigured and charged with delivering innovation.

A key challenge for our business is to get more productivity from our research investment. Over the last two years we have spent significant time and effort changing the way we innovate. In 2005 we worked to get products through our development pipeline. In 2006, we will begin to introduce these products to the market; including a new softener additive to thicken economy brands, two new personal care emulsifiers and Soil Sentry,\* an erosion control agent for the agricultural industry.

Polymer sales, which represent 21 percent of revenues, grew by 15 percent, although volume declined. Stepan's polyurethane polyols are widely used in commercial and industrial low slope roof insulation products. Sales volume declined as demand for these products slowed substantially in response to high materials costs and raw material shortages. The unusually active storm season across the southeastern U.S. in 2005 may lead to increased sales in the second half of 2006 as communities rebuild. We expect that demand will continue to improve as the year progresses. Our innovation efforts led to the development of the next generation polyol. Our new product improves fire retardancy and provides an opportunity for our customers to reduce formulation costs.

Phthalic anhydride (PA) posted stronger earnings this year on slightly lower volume resulting from a planned maintenance shutdown. As 2005 ended, our Millsdale PA plant was running at capacity. Polyurethane systems, the most specialized and highest margin segment of our polymers business, posted record profits with a large, non-recurring order in 2005.

Our plant in Germany, which began producing polyols in addition to surfactants in 2003, had a record year for sales and profitability. We see potential for significant growth in polyol sales from this plant as our customers learn more about the capabilities of our proprietary technologies.

Asia also plays a critical role in Stepan's polymer strategy. In April, we opened a new 20,000-ton polyol plant in Nanjing, China, which was completed on time and on budget. The plant is a joint venture project with Jinling Petrochemical Corporation and will serve the large and growing Chinese market. Although initial customer response has been slower than planned, we expect the plant to be a contributor to sales and profit during 2006. In addition, Stepan has sole right to export product from the plant to other Asian countries, a market that we believe has significant long-term potential.

Specialty products posted a three percent decrease in sales and lower earnings, primarily from lower volumes of food ingredients. Specialty products account for three percent of Stepan sales.

In October, the board of directors declared a 2.6 percent increase in the Company's quarterly cash dividend on its common stock to \$0.20 per share. This marks the thirty-eighth consecutive year in which the dividend has been increased.

In November, the board announced the election of F. Quinn Stepan, Jr., who has served as Stepan's president since 1999, to succeed his father as the

Company's chief executive officer, beginning on January 1, 2006. The board also announced that F. Quinn Stepan would continue in his role as chairman of the board of Stepan. F. Quinn Stepan, who joined the Company in 1961, served as chairman and chief executive officer since 1984. In its announcement, the board noted that under his direction, Stepan expanded its North American base to become a global supplier of surfactants and polymer products. While he served as chairman, the Company grew from \$200 million in sales in 1984 to the \$1.1 billion recorded this year. The board also said they are pleased that the Company will have the benefit of his wisdom and guidance in his continuing role with the Company.

We would also like to recognize the contributions of Gilbert B. Eshoo, vice president, general surfactants, who retired in 2005 after 43 years with the Company. Gil's "can-do" attitude and results-driven leadership style will be missed. We thank Gil for his many years of service and wish him many happy and productive retirement years.

On February 14, 2006, Paul H. Stepan resigned from the Board of Directors after 29 years of dedicated service and commitment to the success of the Company. Paul became a director of Stepan in 1977, bringing his legal and entrepreneurial skills to the Company. He encouraged the Board, management and the many employees he knew with his positive attitude and willingness to support the Company's moves in new directions, whether it was global growth, acquisitions or new product opportunities. On behalf of the Board of Directors, the shareholders and employees of Stepan Company, we wish to thank Paul for his dedication and contribution to the success of the Company. He was a strong proponent of growing the Company. We wish him great success in his future endeavors.

Once again this year, we would like to extend a special thanks to the Company's talented and dedicated employees, who continue to find innovative ways to improve our operations and save money. In particular, we salute the members of the Company's Anaheim plant, who attained the Star status in the Occupational Health & Safety Administration's (OSHA's) voluntary protection program to promote effective safety and health management. They join Stepan's Fieldsboro, Millsdale and Winder sites in achieving this status.

We are also pleased that through diligence and resourcefulness, our employees achieved more than \$8.0 million in cost savings this year through various suggestions and improvements.

We began this letter with a tribute to our employees, who have worked together to build this Company into a global enterprise with more than \$1.1 billion in revenues. We're all pleased to mark this accomplishment. But even more gratifying is the sense of excitement throughout Stepan that this is just the beginning. We see the determination and drive to scale even bigger heights.

We look forward to 2006 with confidence that it will be a year of growth and improvement. Thank you for your investment in Stepan Company.



F. Quinn Stepan  
Chairman



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





# Building on a strong foundation

In a little more than two decades, Stepan has grown from a company with just five plants and \$200 million in sales operating primarily in the U.S. to a global enterprise with \$1.1 billion in revenues and 14 plants in ten countries. Achieving this growth required a combination of strengths: deep knowledge of our customers and the markets we serve; relentless commitment to product quality and innovation; versatile technologies and cost efficient production systems. Most of all, it required resourceful, energetic people working tirelessly toward a common goal. Whether in the lab or in the office, on the plant floor or at the customer's site, our dedicated employees are the foundation upon which Stepan is built. This section of the report profiles some of the many people who helped to grow Stepan into the company it is today. They are also among the leaders that will help us drive future growth in sales and profitability.

### Listening to our customers

For the past ten years, Jeff Easley, a 26-year Company veteran, has managed Stepan's general surfactants laboratory, leading a team of chemists who provide technical support for the North American surfactant markets. The team focuses on developing surfactant intermediates for consumer and industrial products that enhance performance and lower cost.

Throughout his career with Stepan, Jeff has experienced many changes as the Company expanded beyond its North American base and core markets to provide a broad range of products on a global basis. "The biggest difference I see today versus when I started with the Company is that we're listening to the voice of the customer even more," he says. "We're positioning ourselves to serve our customers the way they want to buy, rather than the way we want to sell." He cites the



**Jeffrey Easley**  
SENIOR TECHNOLOGY  
TRANSFER SPECIALIST  
General Surfactants

Company's efforts to streamline process technology, embrace project management and foster cross-departmental teamwork as key initiatives that have shaped the character of Stepan in recent years.

Looking ahead to opportunities in his area of

expertise, Jeff points to development of natural based surfactants that equal or exceed performance of synthetic based systems, the use of biocides in cleaning applications and development of mild surfactant blends that also enhance after-feel.

According to Jeff, reaching the \$1 billion in revenues mark is a great achievement for the Company that represents "the 'blood, sweat and tears' of a lot of people over a number of years doing the right things to continually grow our business."



**Frank Proctor**  
EUROPEAN SALES  
DIRECTOR  
Stepan Europe

### Building a global supply chain

When Frank Proctor joined Stepan as part of the acquisition of the Manro business in the U.K. in 2001, he was eager to be joining a large, well organized and structured organization. Yet, he was also pleased to discover that "for its size, Stepan is still able to keep a close, friendly feel within the organization."

Now in his third year as European sales director, Frank credits the Company's recent efforts to develop into a truly global enterprise with helping Stepan's European operations to manage the

challenging business environment of 2005. Faced with major raw material price increases, aggressive competition and low market prices, the sales and marketing teams "pulled together" to ensure that we obtained sales volumes available in the U.K. market after a key competitor withdrew, while the supply chain delivered improved volumes and increased on-time performance. The result was record volumes for several months in the U.K. this past year. Stepan's plant in Cologne, Germany, also benefited from the consolidation and had record surfactant volumes.

"Our goal now is to continue expanding our product range throughout Europe," Frank says. "That should help strengthen our market position and build even stronger relationships with our key multinational customers."

### Seizing market opportunities

With a major jump in energy prices and favorable governmental tax incentives, the market for biodiesel fuels made from soybeans surged in 2005, providing significant growth and income opportunities for companies that were prepared to take advantage of the market shift. Stepan was



**Jeffrey S. Nelson**  
BUSINESS MANAGER  
Industrial Lubricants and  
Additives & Biodiesel

ready, thanks in large part to the foresight and technological know-how of people like Jeff Nelson, business manager for industrial lubricants and additives for surfactants, and a 28-year Stepan employee.

When Jeff saw a paradigm shift that favored biodiesel fuels, he knew how to apply Stepan's core chemistry to capitalize on the opportunity. The result was a significant increase in biodiesel sales and a substantial profit contribution in 2005. The Company is now expanding capacity at its Millsdale, Illinois, plant to continue to reap the benefits.

"We want to merge biodiesel, our broad product portfolio and our presence in industrial markets to bring new, clean, renewable bio-based products to market," he says. "We're ideally suited to do that. We have the core technologies and our Millsdale plant is located in a very productive agricultural state. We have everything we need right in our own backyard."

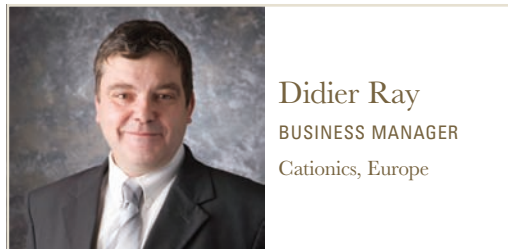
For his initiative and creativity, Jeff was presented the A. C. Stepan, Jr. Innovation Award this year, one of the many ways Stepan encourages and rewards innovative thinking by its employees.

### **Serving multinational customers**

One of Stepan's continuing product success stories is the growing customer acceptance of our esterquat technology for fabric softeners. Pioneered decades ago, Stepan's biodegradable and highly concentrated system for fabric softeners has become the formulation of choice,

first in Europe, and now in the U.S. Didier Ray, business manager, cationics, for Stepan Europe, has had a central role in coordinating activities of the fabric softener product line since 2001.

"Some of the largest multinational companies in the world use our product as the base for their fabric softeners," Didier says. "One of my greatest



**Didier Ray**  
BUSINESS MANAGER  
Cationics, Europe

feelings of accomplishment comes from knowing that Stepan's expertise is becoming globally recognized."

That wasn't necessarily the case when Didier joined the Company 20 years ago, when Stepan had only one site in Europe in Voreppe, France. "At that time, our exchange with U.S. colleagues was extremely limited," he says. "Now, we communicate with our operations in the U.S., Mexico and the Philippines on a daily basis." Didier also credits the Company's recent rollout of Stepan One, its integrated information system, with improving communications and operational efficiency.

As interest increases among multinational companies in more environmentally friendly formulations for products, Stepan expects to

continue to see demand grow for its esterquat technology. That suits Didier just fine. "It's great to be in a growing organization and know that you've been a part of that growth," he says.

### **History of innovation**

Finding ways to innovate for the economic benefits of its customers and the long-term growth and profitability of the Company have always been key to Stepan's business strategy. The Company today continues to build on the decades of contributions from former employee innovators, such as Marvin Nussbaum, a research chemist who retired from the company in 2000 after serving Stepan for 50 years.

Marv, in collaboration with colleague Ed Knaggs, invented the continuous sulfonation process in 1960 — a technology that is still core to Stepan's business. After two and a half years of



**Marvin Nussbaum**  
RETIRED MANAGER  
Product and Process  
Development

development, the continuous sulfonation unit was tested at the Company's Millsdale plant. "I stayed with the unit for 56 straight hours to see that the process was strictly followed," Marv recalls. "I knew that if we were successful, our process would replace the batch sulfonation process we were using at the

time.” The test was successful and the continuous sulfonation process went on to achieve worldwide acceptance. Today, Stepan produces over one billion pounds of chemicals using this process.

In recent years, Stepan has increased its commitment to research and development and is finding new ways to speed up the innovation process to move products more quickly to commercialization. Early Company innovators, such as Mary, have set a high standard for those who follow him.

### Committed to safety

Stepan’s Anaheim, California, plant is one of the Company’s smallest sites in total acreage, but that’s something its resourceful staff has turned into an advantage, says Tom Szczeblowski, plant



**Thomas Szczeblowski**  
PLANT MANAGER  
Anaheim, California

manager since 1995. “We’re known for our ‘can-do’ attitude,” he says with pride. “Because we’re smaller, new projects can be launched in a shorter period of time compared to our larger sites. That’s why many experimental products are first made at Anaheim,” he says.

The plant was the Company’s first location to use

liquid monochloroacetic acid (MCAA) to manufacture betaines. Liquid MCAA replaces a dry raw material requiring a cumbersome bag handling system. Liquid MCAA not only improved safety, but also resulted in raw material cost savings. Anaheim’s work paved the way for other Stepan locations.

Tom is also proud that after three years of hard work the Anaheim plant became a California Occupational Health and Safety (OSHA) Voluntary Protection Plan Star site this year, one of only 36 companies in the state to achieve this prestigious status. “Stepan has always made working safely a number one priority. We were able to achieve Star status because everyone at the plant worked together towards a common goal,” he says.

### Entering new global markets

Production began this year at Stepan’s joint venture plant with Jinling Chemical Company in Nanjing, China, to produce the polyester polyols widely used in the thermal insulation, construction and refrigeration markets. The joint venture and its 20,000-ton plant is under the leadership of James Lang.

Stepan invested in the joint venture to serve the large and growing Asian market for polyols. James sees big potential for the Company as Stepan and its technologies are steadily gaining recognition in the Chinese marketplace. “Right now, the market for polyester polyols in China is relatively small

compared to the North American and European markets, because not too many people know how to use them in their formulations,” he says. But, as customers learn more about the applications for Stepan’s products, the market will grow. For example, James notes that energy waste, a large



**James Lang**  
BUSINESS MANAGER,  
ASIA PACIFIC POLYMERS  
General Manager,  
Stepan Jinling  
Chemical Company Ltd.

and growing problem in China, will create demand for the foam insulation products Stepan produces. Also, as major raw material supplier companies continue to invest heavily in China, it will soon become one of the largest raw material manufacturing countries in the world. Through its joint venture, Stepan is well positioned to take advantage of that growing market.

In his three years at the Company, James has seen significant strides to make Stepan into a truly global enterprise. “When I joined the Company in 2002, we only had the ability to produce polyols at one location in the U.S.,” he says. “Now, with operations in Germany and China, we’re able to provide our customers with excellent technical service and supply on a global basis.”

# five year summary

{IN THOUSANDS, EXCEPT PER SHARE AND EMPLOYEE DATA}

	2005	2004	2003	2002	2001
<b>FOR THE YEAR</b>					
Net Sales	\$1,078,377	\$935,816	\$784,855	\$748,539	\$711,517
Operating income	25,468	19,179	9,796	33,930	30,832
Percent of net sales	2.4%	2.0%	1.2%	4.5%	4.3%
Income before income taxes and minority interest	17,646	14,633	5,271	30,268	25,798
Percent of net sales	1.6%	1.6%	0.7%	4.0%	3.6%
Provision for income taxes	4,170	4,320	360	10,139	9,726
Income before cumulative effect of change in accounting principle	13,529	10,324	4,911	20,129	16,072
Per diluted share (a)	1.39	1.05	0.45	2.05	1.65
Net income	13,159	10,324	4,911	20,129	16,072
Per diluted share (a)	1.35	1.05	0.45	2.05	1.65
Percent of net sales	1.2%	1.1%	0.6%	2.7%	2.3%
Percent to stockholders' equity (b)	7.9%	6.3%	3.1%	12.9%	10.6%
Percent return on invested capital	5.60%	4.97%	3.32%	6.44%	5.73%
Cash dividends paid	7,869	7,731	7,579	7,339	7,056
Per common share	0.7850	0.7725	0.7625	0.7375	0.7075
Depreciation and amortization	38,769	39,169	41,426	40,117	39,972
Capital expenditures	41,519	33,766	32,872	36,135	34,014
Weighted-average common Shares outstanding	9,005	8,970	8,889	8,861	8,837
<b>AS OF YEAR END</b>					
Working capital	\$ 96,344	\$ 77,882	\$ 71,521	\$ 80,095	\$ 72,628
Current ratio	1.6	1.5	1.5	1.8	1.7
Property, plant and equipment, net	211,119	208,870	210,665	211,050	211,433
Total assets	516,159	492,776	464,217	439,667	438,755
Long-term debt obligations	108,945	94,018	92,004	104,304	109,588
Stockholders' equity	166,834	168,241	162,067	158,829	154,351
Per share (c)	17.19	17.42	16.89	16.64	16.27
Number of employees	1,510	1,420	1,447	1,529	1,491

(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 28, 2006) are included in the Company's 2005 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](http://www.stepan.com).



# Using Stepan products

C O N S U M E R & I N D U S T R I A L P R O D U C T S

**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

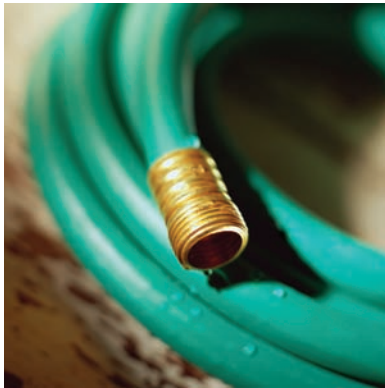
**PERSONAL CARE** After-shave lotions | Anti-bacterial handsoaps | Anti-dandruff shampoos | Anti-perspirants | Baby shampoos | Bar soaps | Bath oils | Bath products | Bubble baths | Cleansing creams | Combo bars | Conditioning shampoos | Dentifrices | Deodorants | Facial preparations | Glosses | Hair 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 | 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



**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/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

## quarterly financial data

{IN THOUSANDS, EXCEPT PER SHARE DATA}

QUARTER	FIRST	SECOND	THIRD	FOURTH	YEAR
2005					
Net sales	\$ 264,252	\$ 278,353	\$ 265,717	\$ 270,055	\$1,078,377
Gross profit	29,816	34,703	32,719	25,624	122,862
Interest, net	(1,799)	(2,006)	(1,994)	(2,002)	(7,801)
Income (loss) before income taxes and minority interest	4,947	9,186	5,819	(2,306)	17,646
Income (loss) before cumulative effect of change in accounting principle	3,244	6,177	4,166	(58)	13,529
Per diluted share	0.33	0.64	0.43	(0.03)	1.39
Net income (loss)	3,244	6,177	4,166	(428)	13,159
Per diluted share	0.33	0.64	0.43	(0.07)	1.35
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)
Income before income taxes and minority interest	5,926	5,586	2,766	355	14,633
Net income	4,030	3,802	1,891	601	10,324
Per diluted share	0.42	0.39	0.19	0.04	1.05

## quarterly stock data

QUARTER	STOCK PRICE RANGE PER SHARE				DIVIDENDS PAID PER COMMON SHARE	
	2005 HIGH	2005 LOW	2004 HIGH	2004 LOW	2005	2004
First	\$24.35	\$21.61	\$26.11	\$21.70	19.50¢	19.25¢
Second	\$24.00	\$20.80	\$26.15	\$22.00	19.50¢	19.25¢
Third	\$26.56	\$22.37	\$25.55	\$22.70	19.50¢	19.25¢
Fourth	\$27.48	\$23.73	\$25.95	\$23.72	20.00¢	19.50¢
Year	\$27.48	\$20.80	\$26.15	\$21.70	78.50¢	77.25¢



# 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

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

**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, Finance

**NICHOLAS J. NEDEAU**  
Vice President, General Counsel and Secretary

**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

**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, Surfactant Sales

### LOGISTICS

**JAMES S. PALL**  
Vice President, Logistics

### MANUFACTURING

**ROBERT S. MANGOLD**  
Vice President, North American Plant Operations

### PURCHASING

**EDMUND A. PERREAULT**  
Vice President, Purchasing

**RICHARD H. WEHMAN, JR.**  
Vice President, Strategic Purchasing

### SURFACTANTS

**MATTHEW I. LEVINSON**  
Vice President, Product Development —  
Surfactants

## 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, IL 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 stock-  
holders and interested parties upon written request to  
the Secretary of the Company or may be obtained on  
our Web site at [www.stepan.com](http://www.stepan.com)

## ANNUAL MEETING

The 2006 Annual Meeting for the Stockholders of  
the Company will be held at 9:00 a.m., Tuesday,  
April 25, 2006, at the Company's headquarters  
in Northfield, Illinois.

## CORPORATE GOVERNANCE

The Nominating and Corporate Governance  
Committee of the Board of Directors has estab-  
lished a committee charter and a Code of Conduct.  
These documents are provided on Stepan's Web  
site at [www.stepan.com](http://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 2005 Form 10-K that was filed with  
the Securities and Exchange Commission on  
March 6, 2006. In addition, the Company  
submitted the Section 12(a) CEO certification to  
the New York Stock Exchange on April 28, 2005.



Northfield, Illinois 60093  
847.446.7500 [www.stepan.com](http://www.stepan.com)





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