

Stepan Company

Annual Communication on Progress to the United Nations Global Compact 2019



Stepan Company Overview and Our Key Areas of Impact

Stepan Company is a global manufacturer of specialty and intermediate chemicals used in consumer products and industrial applications. We depend on over 2,000 employees at our 18 manufacturing operations in 11 countries, and we source raw materials from a large network of suppliers. Our ingredients enter numerous markets, supporting health and hygiene, agricultural needs, building insulation, the construction industry, and more.

Stepan takes great pride in working closely with our customers to build long-term relationships based on trust, responsible practices, and quality products. We look for opportunities to deliver value by supporting customer goals on a wide range of issues and needs that shift with societal, environmental, and governmental trends.

As a member of the chemical industry, safety for employees, for the communities of our operations, and for our material transportation partners is a top priority. Stepan is a member of American Chemistry Council (ACC) and a charter member of Responsible Care®, an organization that works to drive safe, responsible practices across all stages of the chemical industry value chain. As part of its commitment to ACC, Stepan U.S. sites are required to implement and maintain a Responsible Care Management System (RCMS). Facilities outside the U.S. are encouraged to participate in their country specific RCMS program, and all Stepan manufacturing sites are certified to the ISO 9001:2015 standard, which defines criteria related to the consistent provision of products and services that meet customer and regulatory requirements. Across our operations we take seriously our responsibility to comply with local, regional, national, and international laws and regulations.

In 2019, Stepan undertook a materiality exercise to identify key issues of importance to internal and external stakeholders. The results of that work will be used to guide our sustainability related efforts and to support integration of key priorities across company functions. Stepan's Sustainability Priorities include Investing in People, Efficiency for the Planet, Advantageous Products, and Responsible Practices. Stepan aims to drive ethical, responsible, and sustainable practices across our value chain, both in our direct operations and in our broader areas of impact.

In our work we recognize numerous opportunities to drive alignment with the Ten Principles of the UN Global Compact and the Sustainable Development Goals (SDGs). We are committed to promoting practices and delivering products that support the needs of people and the environment. This initial communication will focus on our work to promote safe and decent work opportunities, economic growth, sustainable and responsible use of resources, and ethical business practices across our operations.

Our Commitments to Human Rights Principles

Overview: Assessment, Policy, and Goals Related to Human Rights Principles

Our goal is to ensure we deliver quality products to support our customers while ensuring the fundamental human rights defined by the UN Global Compact are upheld and respected within our operations and across our supply chain.

Promoting Human Rights Principles in Stepan Operations

Stepan respects internationally recognized human rights as defined by the Universal Declaration of Human Rights and Associated Covenants, and the International Labor Organization (ILO) Declaration on the Fundamental Principles and Rights at Work. With operations in 11 countries around the world and raw material sourced from a large network of suppliers, it is essential for continued business that we maintain compliance with local, regional, national, and international laws and regulations.

Stepan values our employees and works to create a respectful workplace that encourages professional growth and promotes employee safety and well-being. The company offers compensation packages that provide Stepan employees and their families with financial security across our areas of operation. We also take pride in engaging with communities where we operate to address local needs and serve as a responsible corporate partner. Through our company Code of Conduct we define expected behaviors and responsibilities for employees and our Board of Directors. In 2019 we updated company policies and have conducted training across our operations on ethics and compliance in the workplace. Stepan's Code of Conduct outlines expectations for behavior and business practices, including no child labor, no exploitation of workers, no forced labor, and no discrimination (for full access to the policies, visit our company [website](#)). Employees are also trained on their responsibility to 'speak-up' on issues of concern either directly to a supervisor or through the company Ethics Hotline.

Promoting Human Rights Principles in our Supply Chain

In 2019 Stepan updated our Responsible Sourcing Policy to drive alignment with our stakeholders on issues related to human and labor rights. In addition, Stepan integrated compliance with our Third Party Code of Conduct, which includes compliance with the Responsible Sourcing Policy, into our contract template for suppliers and service providers. We have started integrating this compliance expectation into existing contracts as they are renegotiated. As a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2011, Stepan partners to promote ethical practices in our palm oil supply chains. We support customers in their efforts to eliminate human rights abuses in our shared supply chain through traceability work and, beginning in 2019, by engaging our direct suppliers to track grievances as they are brought to our attention. Ninety-four percent of our facilities that handle palm based material are RSPO certified, including our facility in Colombia certified this year.

In 2019, Stepan's largest manufacturing facility, located in Elwood, Illinois, underwent an external Together for Sustainability (TfS) audit for evaluation of performance in the areas of environmental, social, and governance (ESG). Stepan's Maywood, New Jersey facility will undergo a SMETA audit for ESG performance at the end of 2019. External Corporate Social Responsibility (CSR)/ESG audits provide an opportunity to highlight our good practices to customers while working collaboratively to drive continued improvement in these areas.

Principle 1:
Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2:
make sure that they are not complicit in human rights abuses.



Human Rights

Actions Taken in 2019:

- Company Code of Conduct revised
- Company-wide training on Ethics and Compliance topics, including anti-bribery and corruption, third-party risk assessment, speaking up, books and records, gifts and entertainment, workplace ethics and behavior, and values-based compliance
- Development of Third Party Risk Management Policy and Procedure
- Updated Responsible Sourcing Policy with clear 'no deforestation, no peat, no exploitation' (NDPE) criteria and a defined grievance process
- Integration of compliance with Stepan's Third Party Code of Conduct into the contract template for new suppliers and service providers
- Implementation of grievance mechanism for engaging supply partners on human rights, labor, and environmental non-compliances with Stepan's Third Party Code of Conduct
- RSPO certification of Manizales, Colombia facility and renewed certification for other sites in support of sustainable palm supply chains
- Support to customers for supply chain transparency and traceability
- Third Party ESG audits at Elwood, Illinois and Maywood, New Jersey facilities
- Community engagement efforts, including the first Stepan Community Outreach Grant Initiative to support local needs in our areas of operation, across 6 countries

2019 Measure of Outcomes

- Over 95% of employees receiving Ethics and Compliance training on the topics noted above
- Over 90% traceability to refinery and/or mill for significant segments of our palm kernel oil (PKO) supply chain
- ESG/CSR external audits (SMETA and Tfs) conducted at 2 facilities, including our largest facility in Elwood, Illinois
- Additional RSPO certifications to reach 94% certification of relevant facilities
- Community Outreach Grants awarded to local non-profit organizations in 8 of Stepan's communities of operation, in 6 countries

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Our Commitments to Labor Rights

Overview: Assessment, Policy, and Goals Related to Labor Rights

Our goal is to create respectful workplace environments that offer opportunity for professional success, recognize employee rights, and promote worker security and well-being.

Supporting Labor Rights in Our Workforce

Our employees are Stepan's greatest resource and we fully commit to fostering workplace safety, supporting employee well-being, creating a workplace built on respect, and enabling professional development. Our company policies align with the International Labor Organization (ILO) Declaration on the Fundamental Principles and Rights at Work, and we work to promote security and opportunity for all of our global employees. In 2019 we updated standards and conducted training across our operations to ensure employee understanding of workplace ethics and compliance. Criteria outlined within our policies include no child labor, no exploitation of workers, no forced labor, no discrimination, freedom of association, and the right to collective bargaining. (For full access to the policies, visit our [company website](#)).

In 2019, Stepan began implementing a new behavior-based safety program, Safe Journey. This program expands on existing programs and was implemented at 12 sites in 2019, with subsequent global roll-out planned. Safe Journey focuses on work-related and task specific safety, with the goal of creating behaviors and habits at each of our sites that ensure employee safety. In 2019, Stepan also administered the National Safety Council Occupational Safety Climate Assessment Report. The survey is conducted every 3-4 years and allows employees to communicate their opinions regarding company EHS culture, leadership, and process safety management, while enabling EHS leadership to evaluate employee engagement and understanding of current policies and practices. Results are used by our EHS and site safety committees to identify needs and develop improvement plans.

Promoting Labor Rights with Our Third Party Partners

In addition to our commitments to employees, Stepan makes clear our expectations for third party partners with regards to safety, security, and training. Contractors must meet minimum requirements specified by ISO 9001 criteria and are reviewed with support from ISNetworld before being approved for work.

Within our raw material supply chains, we support efforts to drive best practices with regards to human rights and labor practices. Stepan's Third Party Code of Conduct and Responsible Sourcing Policy specify the responsibilities of our suppliers for labor practices and human rights (for access to company policies [click here](#)). Our Responsible Sourcing Policy and our procedure for supplier evaluation have been updated in 2019 to support engagement of suppliers on issues of concern, including child labor, forced and compulsory labor, and protection of workers rights.

Principle 3:

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4:

the elimination of all forms of forced and compulsory labor

Principle 5:

the effective abolition of child labor; and

Principle 6:

the elimination of discrimination in respect of employment and occupation.



Labor Rights

Actions Taken in 2019:

- Company Code of Conduct revised
- National Safety Council Occupational Safety Climate Assessment Report administered across global sites
- Safe Journey behavior based safety program initiated at 12 sites as part of phased roll-out
- Responsible Care Management System conformance for our U.S. facilities
- ISO 9001:2015 certification achieved across our global sites
- Updated Responsible Sourcing Policy with clear NDPE criteria and a defined grievance process
- Integration of compliance with Stepan's Third Party Code of Conduct into the contract template for new suppliers and service providers
- Implementation of grievance mechanism for engaging supply partners on human rights, labor, and environmental non-compliances with Stepan's Third Party Code of Conduct
- Third Party ESG/CSR audits at Elwood, Illinois and at Maywood, New Jersey facilities

2019 Measure of Outcomes

- New behavior-based safety program implemented at 12 of 18 manufacturing facilities during initial roll-out
- Over 95% of employees receiving Ethics and Compliance training
- OSHA Voluntary Protection Program for 50% of our U.S. manufacturing facilities
- 100% of Stepan facilities ISO 9001:2015 certified
- ESG/CSR external audits at two Stepan U.S. facilities, including our largest manufacturing site
- Additional RSPO certifications to reach 94% certification of relevant facilities

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Our Commitments to Environmental Responsibility

Overview: Assessment, Policy, and Goals Related to Environmental Responsibility

Stepan works to demonstrate environmental responsibility and deliver products that offer sustainability advantages. Across our value chain, there are opportunities to address environmental challenges. In our raw material sourcing, manufacturing, delivery of finished goods, and in the final use phase, we look to deliver products that offer value to people and support goals to reduce environmental impact, while using resources wisely.

Environmental Responsibility in our Operations

As a charter member American Chemistry Council Responsible Care® and as part of our ISO 9001:2015 certification across our global facilities, we work to demonstrate continuous improvement in safety and in operations management. This includes implementing management practices and supporting behaviors to eliminate accidental spills or releases, as well as identification of opportunities to conserve water and energy. Stepan conforms to the ACC Responsible Care Management System (RCMS)® for our U.S. sites, and Stepan facilities outside the U.S. are encouraged to participate in their country specific Responsible Care® program. In 2019, our EHS team updated our RCMS® Procedure; we expect to begin rolling out this system our U.S. sites and two additional sites in 2020. Stepan's largest facility completed SMETA and TfS external audits related to corporate ESG responsibility, management, and performance. A second U.S. facility will complete a SMETA audit by year end.

Across our facilities we are working to identify projects to drive efficiencies in energy use and water consumption. To better understand our company greenhouse gas emissions impact, Stepan conducted a Greenhouse Gas Protocol Scope 3 analysis. This information will be used along with our Scope 1 and 2 emissions data as we develop long-term strategies related to emissions. In 2019 two of our smallest facilities shifted to 100% use of renewable energy, and we will set our first company targets for energy and water usage for other sites.

Environmental Responsibility in our Products

Stepan offers numerous ingredients that support goals to reduce energy consumption and to reduce environmental impact. These include products that enable energy savings through building insulation, products that result in reduced transport-related emissions, products with high biodegradability, and products that are sourced according to identified best management practices. In 2019 Stepan introduced STEPANQUAT® Helia, a new product that is derived from regionally sourced renewable raw materials and that offers several environmental advantages. We continue to look for opportunities to address environmental needs through product innovation.

Partnering for Environmental Responsibility

Stepan promotes transparency in our ingredients through participation in the Product Stewardship Program and the Globally Harmonized System for Classification and Labeling. We make readily available our Biorenewable Carbon Index (BCI), with quantitative information on biodegradability, biorenewability, VOCs, and more, to support customers who are looking for more environmentally responsible ingredients. In past years, Stepan has partnered with the U.S. EPA to define criteria and support formulation for the Safer Choice program, and has been recognized for that work. Today, Stepan is involved in working groups aimed at understanding and informing policies related to the circular economy and microplastics. Stepan is firmly committed to being a responsible partner in promoting chemical and product safety.

Principle 7:

Businesses should support a precautionary approach to environmental challenges;

Principle 8:

undertake initiatives to promote greater environmental responsibility; and

Principle 9:

encourage the development and diffusion of environmentally friendly technologies.



Environmental Responsibility

Actions Taken in 2019

- National Safety Council Occupational Safety Climate Assessment Report administered across global sites
- Safe Journey behavior-based safety program initiated
- Responsible Care Management System® conformance for our U.S. facilities
- ISO 9001:2015 certification achieved across our global sites
- Target setting process for emissions and energy and water usage
- Greenhouse Gas Protocol Scope 3 assessment
- New RSPO certification of facility in Manizales, Colombia
- Updated Responsible Sourcing criteria with NDPE commits, grievance mechanism
- Water and energy savings initiatives at select sites
- Conversion to 100% renewable energy for two of our smallest facilities
- Ingredients that promote environmental responsibility (STEPANQUAT® Helia in 2019)
- Update to Stepan's EHS Responsible Care® Management System Procedure
- Investment to enable pre-product development analysis of ingredients using EPA (Quantitative Structure Activity Relationship (QSAR) methodology

2019 Measurement of Outcomes:

- Safe Journey behavior based safety program rolled out at 12 of 18 manufacturing facilities
- 25% reduction in municipal water use at Stepan's highest water use facility from 2017 to 2019
- 12% reduction in water use per unit production globally from our 2016 baseline to 2018
- ESG/CSR external audits at two Stepan U.S. facilities, including our largest manufacturing site
- Over 50% increase of RSPO certified ingredients sold in finished goods in 2019
- 100% of our sites certified to ISO 9001:2015

Principle 7:

Businesses should support a precautionary approach to environmental challenges;

Principle 8:

undertake initiatives to promote greater environmental responsibility; and

Principle 9:

encourage the development and diffusion of environmentally friendly technologies.

Our Commitments to Anti-Corruption

Overview: Assessment, Policy, Goals Related to Anti-Corruption

Ethical and responsible practices are of core importance to Stepan and are ingrained in the company culture. The expectation that all employees, Stepan's Board of Directors, and our business partners will conduct themselves according to the highest legal and ethical standards is clearly communicated. Across our operations and at every level of work, we hold ourselves accountable to our coworkers, our communities of operation, our business partners, the laws, and the regulations that are applicable to our industry.

Ethical Business Practices In Our Operations

Beginning in 2018, Stepan initiated a process to enhance its Ethics and Compliance program. The goal has been to integrate existing best practices into an enterprise-wide system to drive consistent management of risk areas and to promote compliance. Stepan's President, Chairman, and CEO has clearly communicated to employees that ethical business practices are critical for maintaining Stepan's business reputation and achieving business goals. In 2018 and 2019 new controls and policies have been established, including development of a new executive Ethics and Compliance Committee with management providing guidance, creation of an internal review process, and independent review by the Board of Directors.

Over the course of the year, Ethics and Compliance training for employees has been implemented across our facilities on topics including anti-corruption, anti-bribery, conflict of interest, and third party risk management. More in-depth training has been provided for key functions, with added focus on higher risk regions of operation. In 2019 Stepan's Code of Conduct was updated and company-wide training on the new Code of Conduct is scheduled for the end 2019 through January 2020. The Ethics Hotline complaints management protocols are also being revised in 2019.

Ethics and Compliance with Our Third Party Partners

In 2019 Stepan developed a third party risk screening process and management policy. Stepan is committed to conducting business only with third parties who conduct business in compliance with all applicable laws, rules, and regulations and consistent with Stepan's Third Party Code of Conduct. The third party risk management policy and procedure will be rolled out starting at the end of 2019 and into 2020 and will be utilized in conjunction with a risk analysis tool and the Corruption Perception Index to evaluate our third-party partners.

Principle 10:
Businesses should work against corruption in all its forms, including extortion and bribery.



Our Commitments to Anti-Corruption

Actions Taken in 2019

- Revised governance and oversight structure including development of an executive Ethics and Compliance Committee with direct reporting to the Board of Directors
- Revision of company Code of Conduct and integration into enterprise-wide system
- Company-wide training on ethics and compliance topics, including anti-bribery and corruption, third-party risk assessment, speaking up, books and records, gifts and entertainment, workplace ethics and behavior, and values-based compliance
- Development of investigation protocols for issues raised on Ethics Hotline
- Development of Third Party Risk Management Policy and Procedure

2019 Measures of Outcomes

- Over 95% of employees receiving ethics and compliance training on the topics noted above
- 100% of sites assessed for risks related to corruption
- 100% of sites in high risk geographies receiving on site anti-bribery and corruption audits and training
- Global management level survey sent to 400 employees on the topic of enterprise level risk; results will serve as baseline and will be used to direct ongoing actions
- Corporate responsibility audits at two sites according to SMETA and TfS criteria for environmental, social, and governance performance

Principle 10:
Businesses should work against corruption in all its forms, including extortion and bribery.