

Stepan Company

Annual Communication on Progress to the United Nations Global Compact 2020



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The 10 Principle of the U.N. Global Compact		Links to Stepan Resources	Stepan Actions in 2020 to Promote the 10 Principles
Human rights	<ol style="list-style-type: none"> 1. Businesses should support and respect the protection of internationally proclaimed human rights; and 2. make sure that they are not complicit in human rights abuses. 	Stepan Code of Conduct Stepan 2019 Sustainability Report	<p>New human rights policy under review.</p> <p>Ethics and Compliance Training on Stepan's Code of Conduct for over 95% employees at the time of this report.</p> <p>Ethics and Compliance risk assessment Implemented across 100% of new suppliers. Complete risk review of existing suppliers on track for completion in 2020.</p> <p>Protection of employee safety while also increasing production capacity and distribution to support global needs for sanitation and hygiene during the pandemic.</p>
Labor practices	<ol style="list-style-type: none"> 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. the elimination of all forms of forced and compulsory labor; 5. the effective abolition of child labor; and 6. the elimination of discrimination in respect of employment and occupation. 	Stepan Code of Conduct Stepan 2019 Sustainability Report Stepan ESG Report	<p>New human rights policy under review.</p> <p>Ethics and Compliance Training on Stepan's Code of Conduct for over 95% employees at the time of this report.</p> <p>Increased safety and security protocol to protect workers' health during the pandemic, while maintaining business continuity.</p> <p>Risk assessment of all new or potential Stepan suppliers. Risk assessment of all existing suppliers anticipated to be completed in 2020.</p>
Environment	<ol style="list-style-type: none"> 7. Businesses should support a precautionary approach to environmental challenges; 8. undertake initiatives to promote greater environmental responsibility; and 9. encourage the development and diffusion of environmentally friendly technologies. 	Stepan 2019 Sustainability Report https://www.stepan.com/content/stepan-dot-com/en/Innovation.html Stepan ESG Report	<p>New sustainability targets announced for 2025.</p> <p>Acquisition of Rhamnolipid technology to promote more environmentally friendly product development.</p> <p>Renewable Energy Credits for our largest facility beginning end 2020.</p> <p>Partnership with Emory University in support of soil regeneration and urban agriculture.</p> <p>New LEEDS certified Agriculture Solutions Innovation and Customer Experience Center.</p> <p>Products supporting SDG goals #2, 3, 6, 12, 13.</p>
Anti-corruption	<ol style="list-style-type: none"> 10. Businesses should work against corruption in all its forms, including extortion and bribery. 	Stepan Code of Conduct Stepan 2019 Sustainability Report	<p>Ethics and Compliance Training on Stepan's Anti-Bribery and Corruption Policy for over 96% of employees at the time of this report.</p> <p>Risk assessment of all new or potential Stepan suppliers. Risk assessment of all existing suppliers anticipated to be completed in 2021</p>



Stepan Company and Our Areas of Impact in 2020

Stepan Company is a global manufacturer of specialty and intermediate chemicals used in consumer products and industrial applications. We depend on over 2,200 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.

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.

The COVID-19 pandemic has presented unprecedented challenges to all of us and served as a test of Stepan's ability to respond to extreme conditions. In 2020, the Company worked to rapidly increase global production and distribution of Stepan products that support sanitation and hygiene, while simultaneously working to protect the safety of our employees and respect the challenges faced by our business partners. Through the rapid roll-out of new workplace technologies, safety protocols, provision of essential protective equipment and gear, and clear guidance from the Chairman, President and CEO regarding the value placed on employee safety, Stepan was able to increase production of critical products to protect human health.

Stepan is very proud that our products have supported global efforts of workers on the front-line, institutions, and everyday citizens to combat the spread of COVID-19. This work aligns fully with our sustainability priorities and our Company vision of providing *Innovative Chemical Solutions for a Cleaner, Healthier, More Energy Efficient World*.

We are pleased that in 2020, Stepan ranked as the 45th most sustainably managed company in the world by the Wall Street Journal. Stepan's diversified portfolio that aims to address current and emerging societal needs, as well as our commitment to responsible and ethical business practices, both in our direct operations and in our broader areas of impact, are essential to our continued progress. Across functions and for key roles within the Company, compensation is tied to performance on our sustainability goals and relevant training is expected for all employees. We partner with our suppliers to promote best practices with regards to safety, quality, and labor and human rights. We take great pride in working closely with our customers to build long-term relationships based on trust, responsible practices, and quality products, and 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). In this Annual Communication on Progress we are pleased to share our efforts to promote these principles and goals.

Stepan's goal is to deliver products to support our customers while working to uphold and respect the fundamental human rights defined by the UN Global Compact within our operations and across our supply chain. This year presented unique challenges and opportunities resulting from the pandemic, and the top priority has been to safeguard the health of Stepan associates as we work to deliver products that contribute to the fight against COVID-19.

In 2020, Stepan took the following actions to promote and strengthen human rights in our areas of influence:

- SDG Connections: Good Health and Well-Being
Clean Water and Sanitation
Decent Work and Economic Growth

Our goal is to create respectful, inclusive workplace environments that offer opportunity for professional success, recognize employee rights, and promote worker security and well-being. Stepan recognizes the benefits that diversity brings to our business, and we believe each person's unique talents, experiences, and perspectives help promote innovation and top performance. We commit to equal opportunity and fair treatment in all aspects of our business, including those related to fair pay and wages.

With the challenges posed by COVID-19, Stepan Company has worked to recognize the unique needs and stresses our employees and associates have faced, including health concerns, the demands of meeting the needs of children and families, and the stressors associated with tremendous uncertainty. With a strong focus on protecting employee safety and maintaining a sense of connectedness and unity, Stepan Company leadership has worked to support employees during a very difficult period, while maintaining global production of critical supplies.

- Training across our operations to ensure employee understanding of workplace ethics, expected behaviors, employee rights, and employee responsibilities as outlined in Stepan's Code of Conduct; at the time of this report, over 96% employee participation in training
- COVID 19 response to protect employee and Stepan associate safety and enable continued work (details described under Human Rights)
- [Stepan's 2019 Sustainability Report](#) highlighting the Company's updated Sustainability Priorities and commitments to employees
- New Company targets related to employee safety: <0.25 Total Recordable Incident Rate by 2025
- New Company target on employee ethics, compliance and safety training: 100% employee participation by 2021
- Ethics and Compliance risk review of potential and current third-party partners using new assessment tool; beginning in 2020, 100% of potential suppliers are evaluated before approval.
- Supply chain certifications and ongoing engagement for palm supply chain traceability and tracking of non-compliance issues on deforestation, human rights, labor practices
- Review and update of Stepan's Responsible Sourcing Policy, defining expectations for our supply chain partners, including elimination of deforestation, child labor, and exploitation of workers within their supply chains

SDG Connections:

- Good Health and Well-Being
- Clean Water and Sanitation
- Decent Work and Economic Growth



2020 Actions and Outcomes:

Stepan works to demonstrate environmental responsibility and to deliver products that offer benefits for people and the environment. 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.

In 2020, Stepan increased efforts to embed sustainability across company functions. While we maintain a continuous focus on safety and our commitments through the American Chemistry Council Responsible Care® program and our global ISO 9001:2015 certifications, we invested additional energy toward driving awareness and focus on the needs and opportunities defined through the UN Sustainable Development Goals. As a result of clear messaging from the Company leadership on the role sustainability has for each employee, as well as increased communications and trainings, numerous initiatives are underway that are expected to deliver environmental benefits.

In 2020, Stepan took the following actions to promote and strengthen environmental responsibility in our areas of influence:

[Stepan's 2019 Sustainability Report](#) and [ESG Analyst Download](#) highlight the Company's updated sustainability priorities, goals and performance

- New target to reduce GHG emissions per unit production by 10% by 2025
- New target for 20% of Stepan's global electricity supply to come from renewable sources by 2025
- New target to reduce the Company's water consumption per unit production by 40% by 2025
- New target to direct 80% of Stepan's R&D investment toward sustainable products and processes
- Development of in-house capabilities for product sustainability assessment
- Roll-out initiated for new Environmental Management System, beginning at our U.S. manufacturing sites
- Purchase of renewable energy credits for all electricity usage at our largest facility beginning December 2020, representing a significant percentage of the Company's overall electricity usage
- Acquisition of Rhamnolipid technology to promote more environmentally friendly product development
- New partnership with Emory University Resilience and Sustainability Collaboratory in support of soil regeneration, agricultural innovation and community agriculture with the goal of creating solutions to climate and social challenges in a manner that promotes community well-being and resilience across the region
- Construction of Stepan's new LEEDS Silver certified Agriculture Solutions Innovation and Customer Experience Center with features to enable collection and reuse of 100% of rainwater, solar panels to offset about 10% of energy needs, over 48,000 square feet of native plants, and plans for a working farm with the goal of connecting to the local community for education and community agriculture
- Existing products and product innovation to support global goals, including energy conservation, health and wellness, clean water and sanitation, responsible consumption and production, and climate action

SDG Connections: Zero Hunger
 Health and Well-Being
 Clean Water and Sanitation
 Responsible Production and Consumption
 Climate Action



2020 Actions and Outcomes:

Stepan Company understands that the strength of communities and economies can be negatively impacted as a result of bribery and corruption. Stepan operates internationally, and we are subject to many different anti-corruption laws. Specifically, the United States' Foreign Corrupt Practices Act (FCPA) and the United Kingdom's Anti-Bribery Act prohibit bribery and corruption and apply to all Stepan employees.

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.

In addition to ongoing trainings for Stepan associates on the Company Code of Conduct, Stepan utilizes a risk screening process to evaluate potential suppliers. 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 screening process supports our evaluation and as of 2020 is used for assessment of all new suppliers. In 2020 we initiated evaluation of Stepan's existing third-party partners, and we expect to complete this work by year end. Third parties are evaluated for criminal activity, existing sanctions, or adverse media to help understand potential risk to Stepan Company.

Actions Taken in 2020:

- [Stepan's 2019 Sustainability Report](#) and [ESG Analyst Download](#) highlight the Company's updated sustainability priorities and our commitments to ethical practices across our value chain
- New target for 100% employee participation in safety and ethics and compliance training by 2021
- At the time of this report, over 96% employee participation in training related to Stepan's Code of Conduct, including focus on anti-bribery and corruption, third-party risk assessment, speaking up, books and records, gifts and entertainment, workplace ethics and behavior, and values-based compliance
- 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
- Implementation of Stepan's Third Party Risk Management Policy and Procedure, with 100% of new suppliers assessed prior to approval; existing suppliers are being assessed with completion targeted for 2020

SDG Connections: Peace, Justice and Strong Institutions