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FORM 10-K

SAUER DANFOSS INC - SHS

Filed: March 04, 2010 (period: December 31, 2009)

Annual report which provides a comprehensive overview of the company for the past year

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009
COMMISSION FILE NUMBER: 1-14097

SAUER-DANFOSS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3482074
(I.R.S. Employer
Identification No.)

2800 E. 13th Street, Ames, Iowa
Krokamp 35, Neumünster, Germany
(Address of principal executive offices)

50010
24539
(Zip Code)

(515) 239-6000

(Registrant's telephone number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share

(Title of each class)

New York Stock Exchange

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act"). Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of the voting common stock of the registrant held by nonaffiliates based on the last sale price on June 30, 2009 was \$69,370,059. (The registrant does not have any other authorized common equity.)

As of March 1, 2010 there were 48,389,406 shares of common stock, \$0.01 par value, of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

PART I

Item 1. Business.

(a) General Development of Business

Sauer-Danfoss Inc. (the Company), a U.S. Delaware corporation, and its predecessor organizations have been active in the mobile hydraulics industry since the 1960s. Sauer-Danfoss is a global leader in the development, manufacture, and marketing of advanced systems for the distribution and control of power in mobile equipment. The Company designs, manufactures, and markets hydraulic, electronic, electric, and mechanical components, as well as software and integrated systems that generate, transmit, and control power in mobile equipment. Principal products are hydrostatic transmissions, open circuit piston pumps, open circuit gear pumps and motors, low speed high torque motors, steering units, microprocessor controls, electrohydraulics, and control valves. The Company sells its products to original equipment manufacturers (OEMs) of highly engineered, off-road vehicles who use Sauer-Danfoss products to provide the hydraulic and electronic power for the propel, work, and control functions of their vehicles. The Company's products are sold primarily to the agriculture, construction, road building, turf care, material handling, and specialty vehicle markets. The Company conducts its business globally under the Sauer-Danfoss name.

In 2009 the Company completed the sale of its alternating current (AC) electric motor business which sold products into the material handling market. This resulted in total expense of approximately \$14.7 million, of which \$6.3 million and \$8.4 million was recognized in 2009 and 2008, respectively. This expense was reported in the Controls segment. During 2009 the Company also sold the assets of its steering column business which was located in Kolding, Denmark. The loss on sale of the business of \$2.7 million was reported in the Work Function segment.

In July 2009 the Company and Topcon Positioning Systems, Inc. (Topcon), the noncontrolling interest partner, agreed to terminate the joint venture they have operated since April 2001 through TSD Integrated Controls, LLC (TSD). The termination was effective September 1, 2009 but is subject to a three-year wind-down period as contemplated in the 2001 Joint Venture Agreement.

On December 22, 2009 Danfoss A/S, the majority stockholder of the Company, issued a press release announcing its intention, through its wholly owned subsidiary, Danfoss Acquisition, Inc., to commence a cash tender offer to be followed (in certain circumstances) by a statutory merger for the purpose of acquiring all the outstanding shares of Company common stock not already owned, directly or indirectly, by Danfoss A/S for a price of \$10.10 per share. On January 15, 2010 Danfoss issued a press release announcing an indeterminate delay in launching its proposed tender offer. As of March 3, 2010 Danfoss had not commenced the proposed tender offer.

(b) Financial Information About Segments

The Company reports its operating segments based on its product lines of Propel, Work Function, and Controls. Propel products include hydrostatic transmissions and related products that transmit the power from the engine to the wheel to propel a vehicle. Work Function products include steering motors as well as gear pumps and motors that transmit power for the work functions of the vehicle. Products in the Controls segment include electrohydraulic controls, microprocessors, and valves that control and direct the power of a vehicle. Information about the Company's reportable segments defined by product lines is set forth in Note 17 in the Notes to Consolidated Financial Statements on pages F-37 through F-39 of this report and is incorporated herein by reference.

(c) Description of Business

Information regarding the Company's principal products, by segment, and the business in general is presented below. Information regarding sales by the Company's segments and geographic regions is set

forth in Note 17 in the Notes to Consolidated Financial Statements on pages F-37 through F-39, and is incorporated herein by reference. No individual customer accounted for 10 percent or more of the Company's total net sales in 2009, 2008, or 2007.

Propel Segment

Hydrostatic Transmissions

Sauer-Danfoss designs, manufactures, and markets a range of closed circuit axial and bent axis piston hydrostatic transmissions for the propulsion of mobile equipment in the Americas, Europe, and Asia-Pacific region. High-power (typically over 50 HP) and medium-power (typically 25 to 50 HP) applications for hydrostatic transmissions manufactured by the Company include construction, road building, specialty, and agricultural mobile equipment. Light-power (typically 15 to 25 HP) and bantam-power (typically under 15 HP) applications for hydrostatic transmissions manufactured by the Company include light agricultural and turf care mobile equipment. The Company manufactures these hydrostatic transmissions at its facilities in Ames, Iowa; Sullivan, Illinois; Princeton, Kentucky; Freeport, Illinois; Neumünster, Germany; Dubnica nad Váhom, Slovakia; Povazská Bystrica, Slovakia; Shanghai, China; and Osaka, Japan.

Open Circuit Piston Pumps

Sauer-Danfoss designs, manufactures, and markets open circuit piston pumps used to transform mechanical power from the engine to hydraulic power for the various functions of the vehicle. The advantages of open circuit piston pumps compared to other types of pumps, such as vane or gear pumps, are the high degree of control within the work function hydraulic system and the more efficient use of engine power. These products are designed and manufactured at facilities in Ames, Iowa and Dubnica nad Váhom, Slovakia.

Work Function Segment

Open Circuit Gear Pumps and Motors

Sauer-Danfoss designs, manufactures, and markets a broad range of high-performance standard gear pumps and motors. Gear pumps and motors are the most widely used type of mobile hydraulic pumps and motors in the industry. The Company manufactures gear pumps and motors at its Lawrence, Kansas; Bologna, Italy; and Povazská Bystrica, Slovakia facilities.

Low Speed High Torque Motors

Sauer-Danfoss designs, manufactures, and markets a complete line of geroller and gerotor motors used for both propel and work functions in all served markets. These motors are manufactured at the Company's Lawrence, Kansas; Nordborg, Denmark; and Bielany Wroclawskie, Poland facilities.

Steering Units

Sauer-Danfoss designs, manufactures, and markets hydrostatic steering units to customers throughout the world. These steering units convert steering wheel motion into hydraulic flow and pressure to provide steering motion for agricultural tractors, combines, turf care, marine, and earthmoving equipment. The Company manufactures steering units in Nordborg, Denmark; Wroclaw, Poland; and Pune, India.

Controls Segment

Mobile Electronics

Sauer-Danfoss designs, manufactures and markets a portfolio of electronic controls, including microprocessor-based controllers (both generic type to control any mobile machinery and specialized to control speed variability of alternating current electric motors), intelligent displays, joysticks and electronic sensors through its electronic and mechatronic operations in Minneapolis, Minnesota; Älmhult, Sweden; Kaiserslautern, Germany; Neumünster, Germany; and Nordborg, Denmark. The software to integrate all these components into systems is also developed by Sauer-Danfoss and licensed to customers to let them develop their own solutions in an easy-to-use, graphical environment. Electronic controls and software are used by OEMs to network hydrostatic transmissions and work function hydraulics of mobile equipment into comfortable, safe and efficient systems. The Company divested its alternating current (AC) electric motors and generators business in 2009.

Control Valves

Sauer-Danfoss designs, manufactures and markets a variety of spool type control valves to meet its customers' needs, ranging from very sophisticated electrohydraulic valves for highly sophisticated forestry and agricultural harvesting equipment, to very simple low-cost valves for compact utility tractors. These products are manufactured in facilities located in Caxias do Sul, Brazil; Nordborg, Denmark; Easley, South Carolina; and Pune, India.

The Company also designs, manufactures and markets a complete line of cartridge valves and hydraulic integrated circuits in facilities located in Reggio Emilia, Italy; Easley, South Carolina; and Caxias do Sul, Brazil. Aerial lift platforms and road building equipment are significant users of cartridge valves.

Major Markets and Applications

<u>Construction and Road Building</u>	<u>Agriculture and Turf Care</u>	<u>Material Handling and Specialty Vehicles</u>
Chip spreaders	Combines	Industrial lift trucks
Concrete pumps	Commercial wide-area, walk-behind mowers	Logging equipment
Concrete saws	Commercial zero-turn mowers	Marine equipment
Crawler dozers	Cotton pickers	Mining equipment
Crawler loaders	Detasslers	Oil field equipment
Ditchers/trenchers	General turf maintenance equipment	Railway maintenance vehicles
Excavators	Harvesters	Rough terrain fork lifts
Grinders	Lawn and garden tractors	Self-propelled boom aerial lifts
Landfill compactors	Seeders	Self-propelled scissor aerial lifts
Pavers	Sprayers	Snow groomers
Planers	Tractors	Sweepers
Rollers	Windrowers	Tree shakers
Skid steer loaders		Truck and bus fan drives
Transit mixers		Warehouse trucks
Utility tractors		
Wheel loaders		

General Characteristics

Sauer-Danfoss sells both standard and customized products, with most products being built to order. With respect to some of the most technologically demanding vehicles, such as those used in agriculture, forestry, construction, and road building, Sauer-Danfoss' engineers work closely with customers from design through manufacture of the final product. The research and design phase, which is funded by the

Company, can range from a few weeks to as long as four to six years for a major application. Once the design has been accepted and the customer has placed an order, the manufacturing process typically takes only a few days.

Sauer-Danfoss operates 20 manufacturing facilities in the Americas, Europe, and the Asia-Pacific region. The Company's decentralized manufacturing capabilities allow it to adapt its products to local market needs and to provide flexibility to meet customer delivery requirements. The Company sells and distributes its products directly to large OEMs and serves smaller OEMs through Company-owned sales companies or independent distributors.

In accordance with standard industry practice for the mobile equipment industry, the Company warrants its products to be free from defects in material and workmanship. The warranty period varies from one to three years, from the date of first use or date of manufacture, depending on the type of product or, in some cases, the application. The Company's warranty expense has been two percent or less of net sales in each of the past three years.

Because many of its products are designed and developed in conjunction with its customers' design teams to fit their specific needs and to minimize inventory levels, the Company primarily manufactures products to order. The Company typically machines components with long lead times according to a sales forecast and machines certain unique components for specific customers according to firm orders. Inventories at the Company's manufacturing sites consist primarily of raw materials and machined iron housings and components. Limited amounts of assembled finished units are maintained in inventory at the manufacturing sites. Some of the Company's sales locations maintain inventory that consists primarily of finished units manufactured specifically for distribution to customers in those locations.

The Company does not accept orders subject to late delivery penalties. On occasion, the Company sells its products to government agencies, including those used for military applications, but it does not design its products to meet specific government standards and usually only enters into contracts for the supply of commercial products. There are no government contracts of material value to the Company.

Raw Materials

The Company purchases iron housings and components from various U.S., European, and Asian foundries and metal suppliers. The principal materials used by the Company are iron, steel, brass, and aluminum. All materials used by the Company are generally available from a number of sources in quantities sufficient to meet current requirements. The Company has a global supplier quality program that it uses to ensure all suppliers meet the Company's quality expectations.

Patents, Trademarks, and Licenses

The Company owns or licenses rights to approximately 560 patents and trademarks relating to its business. While the Company considers its patents and trademarks important in the operation of its business and in protecting its technology from being used by competitors, its business is not dependent on any single patent or trademark or group of related patents or trademarks.

To ensure worldwide availability of the Company's design of products, the Company has, in the past, licensed its technology to unaffiliated companies in certain countries. The Company does not currently have any such license agreements in place. The Company currently has license agreements in place as part of joint ventures in which the Company participates to manufacture or distribute the Company's technology.

Seasonality

Seasonal patterns in retail demand for agricultural, construction, road building, and turf care equipment sold by the Company's customers result in variations in the volume and mix of products sold by

the Company during various times of the year. Historically, the Company has higher sales levels in the first half of the year. Seasonal demand must be estimated in advance, and products must be manufactured in anticipation of such demand in order to achieve efficient utilization of labor and production resources.

Working Capital

The Company has historically funded its working capital requirements through cash flow from operations and its various credit facilities. As described in Note 8 in the Notes to the Consolidated Financial Statements on page F-21 of this report, the Company has a credit facility in place which allows them to borrow up to \$690 million from Danfoss A/S, the Company's majority shareholder. The Company is heavily reliant on Danfoss A/S as its primary external source of working capital financing.

Backlog

At December 31, 2009 the Company's backlog (consisting of accepted but unfilled customer orders primarily scheduled for delivery during 2010) was \$509 million, a decrease of 33 percent from December 31, 2008, excluding the impact of currency fluctuation. Historically, backlog comparisons have been a good indicator of the Company's future business level, but the value of those comparisons depends on the degree to which customer ordering behavior remains constant from year to year. Customers can increase, cancel, or reschedule orders, so some customers place orders in excess of their actual needs in order to ensure that adequate quantities will be available. In such a case, the customer may ultimately cancel a portion of its order. The 33 percent decline in backlog is compared to an inflated backlog from a year ago before many of the Company's customers had started to cut orders and is not reflective of the improvement in sales the Company is seeing in 2010.

Competition

The mobile hydraulics industry is very competitive. Sauer-Danfoss competes based on technological product innovation, quality, and customer service. The Company believes that to be successful over the long term, suppliers to mobile equipment manufacturers must have the ability to capitalize on the changing needs of the industry by providing technological innovation, shorter product development times, and reduced manufacturing lead times at globally competitive price levels.

Hydrostatic Transmission Market

The closed circuit hydrostatic transmission market is highly concentrated and intensely competitive. There are a small number of manufacturers of hydrostatic transmissions with which the Company competes worldwide that are not captive suppliers of OEMs. These include Bosch Rexroth AG, Eaton Corporation, and Linde AG. In addition, the Company competes with alternative products, such as mechanical transmissions of other manufacturers.

The Company competes with a number of smaller companies that typically offer a single, specialized product on a more limited geographic basis as a component of a closed circuit hydrostatic transmission system.

In terms of global supply of closed circuit hydrostatic transmissions, the Company believes it is the world leader in terms of product range, market share, and geographic coverage. Only Bosch Rexroth AG offers similar geographic coverage.

Open Circuit Piston Pumps, Gear Pumps and Motors Market

The open circuit work function market is fragmented with a large number of suppliers of all types of products and with intensive competition on pricing at the component level. There are approximately ten major companies that compete on a global basis, including Bosch Rexroth AG, Parker-Hannifin

Corporation, Casappa S.p.A. and Haldex, and in Japan, Shimadzu Corporation. The supply of standard gear pumps and motors is particularly fragmented with more than 50 companies worldwide in each respective area. Most of these competitors have a limited product range and operate in a limited geographic market. The market for these products is rapidly increasing for engine cooling fan drive applications being requested for upcoming new emissions regulations.

Low Speed High Torque Motor Market

There are a limited number of competitors who can provide a complete line of low speed, high torque motors (LSHT). Competitors include Eaton Corporation, Bosch Rexroth AG, White Drive Products, Parker-Hannifin Corporation, and M+S Hydraulic. This market is highly price-competitive and is growing, providing Sauer-Danfoss opportunity to develop new products to increase market share.

Steering Unit Market

Hydrostatic steering units are provided to the market from more than ten competitors, the major ones being Eaton Corporation, Zhenjiang Hydraulic Components Manufacturing Co., Ltd., Ognibene S.p.A., Bosch Rexroth AG, M+S Hydraulic and Parker-Hannifin Corporation. Sauer-Danfoss believes it has the largest European market share for steering units and an increasing share globally. As steering systems grow and needs expand, Sauer-Danfoss is providing electronic control of steering and complete electrical steering solutions to meet the growing demands of the steering market. Today, Sauer-Danfoss believes that it leads the industry in this direction for steering technology.

Mobile Electronics Market

In the mobile electronics market, which covers both propulsion and work function systems, there are few suppliers of propulsion system controls and only three are worldwide competitors. The main competition in this area comes from major OEMs, who produce controls for their own use. In work function electrohydraulic valves and electronic controls, there is a wide range of niche suppliers in limited geographic markets. In recent years, larger companies have increasingly acquired these niche or regional suppliers and thereby have improved their ability to offer integrated systems. The Company believes it is well positioned to establish itself as a technology leader in the work function and propel segments, as there is no clearly established technology in this sector that is deemed to be an industry standard.

Control Valves Market

The control valves marketplace is fragmented with a large number of suppliers, most of which are focused on limited valve types or flow ranges. Sauer-Danfoss provides a comprehensive line of both spool valves and cartridge valves to meet the specific needs of its customers. Competitors who provide partial lines include HydraForce, Sterling Hydraulics, HUSCO International, Sun Hydraulics Corporation, Integrated Hydraulics Limited, Walvoil S.p.A., and Bosch Rexroth Oil Control S.p.A., plus many others. Complete global control valve line competitors are limited to Parker-Hannifin Corporation, Bosch Rexroth AG, and Eaton Corporation. Sauer-Danfoss believes growth in this market will be higher than historical levels related to its new product introductions and the implementation of new emissions regulations.

Research and Development

The Company's research and development expenditures during 2009, 2008, and 2007 were approximately \$61.4 million, \$82.9 million, and \$70.6 million, respectively.

Environmental Matters

In all countries in which it operates, the Company is subject to environmental laws and regulations concerning emissions to air, discharge to waterways, and the generation, handling, storage, transportation, treatment, and disposal of waste materials. These laws and regulations are constantly evolving, and it is impossible to predict accurately the effect they will have on the Company in the future. The regulations are subject to varying and conflicting interpretations and implementation. In some cases, compliance can only be achieved by additional capital expenditures. The Company cannot accurately predict what capital expenditures, if any, may be required to comply with applicable environmental laws and regulations in the future; however, the Company does not currently estimate that any future capital expenditures for environmental control facilities will be material. The Company is not currently subject to any governmental remediation order, nor is the Company aware of any environmental issues that would have a materially adverse effect on the Company.

Employees

As of December 31, 2009, 2008, and 2007 the Company had approximately 6,100, 9,600, and 9,800, employees, respectively. Of its full-time employees at December 31, 2009, approximately 1,800 were located in the Americas with the remaining located in Europe and the Asia-Pacific region. From time to time, the Company also retains consultants, independent contractors, and temporary and part-time workers.

Financial Information about Geographic Areas

Information regarding the Company's net sales and long-lived assets by geographic area is set forth in Note 17 in the Notes to Consolidated Financial Statements on pages F-40 through F-42 of this report, and is incorporated herein by reference.

Available Information

The Company maintains an internet website and the address of that site is <http://www.sauer-danfoss.com>. The Company provides access to its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 through its internet website as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC site is <http://www.sec.gov>.

Item 1A. Risk Factors.

The Company's business, financial condition, results of operations and cash flows can be affected by a number of factors, including but not limited to those set forth below and elsewhere in this annual report on Form 10-K, any one of which could cause actual results to vary materially from recent results or from anticipated future results.

Worldwide Economic Conditions

As has been widely reported, the financial markets in the U.S., Europe, and the Asia-Pacific region have been in a period of severe disruption over the last year. The turbulence has been most immediately evident in the extreme tightening of credit markets, the resulting loss of liquidity, and historic drops in stock prices. In response, governments around the world have taken unprecedented steps intended to minimize the depth and breadth of the crisis. There are indications that the economic situation may be

beginning to improve in 2010, however it is impossible to predict if the improvement will continue and at what rate the improvement will occur.

These economic developments in 2008 and 2009 have adversely affected the Company's business, financial condition, and results of operations in a number of ways, and they will likely continue to adversely impact the Company until the economic conditions improve. Tightening credit markets could have a material impact on the Company's customers and suppliers and their ability to finance their operations, which could result in a decrease in, or deferral of, orders for the Company's products or an increase in the Company's cost of production. A prolonged economic slowdown, recession, or depression could similarly have a material and adverse impact on the Company's business, financial condition, and results of operations.

The Company experienced a significant decline in the demand for its products during 2009 as a result of the substantial deterioration in economic conditions. Many of the Company's customers chose to delay their purchases of the Company's products. Current indications are that demand for the Company's products will increase in 2010. Customer spending on the Company's products is not discretionary, but the Company is unable to predict the level of growth expected in 2010 as customers increase their spending. Ongoing depressed demand for the Company's products could result in decreased revenues, profitability and cash flows and may impair the Company's ability to maintain operations and fund obligations to others.

Avoidance of Credit Default; Dependence on Affiliate Borrowing

As a result of the deterioration of its financial condition in early 2009 resulting from the impact of the worldwide economic downturn on its business, the Company entered into a Credit Agreement with Danfoss A/S, the Company's majority stockholder, in March 2009, to refinance and avoid default on certain credit agreements in existence at that time and to fund a significant portion of the Company's working capital and other needs. In November 2009 the Company refinanced that agreement with a new agreement with Danfoss A/S which requires repayment in April 2011.

In borrowing significant funds from Danfoss A/S, the Company is heavily dependent on Danfoss A/S for the Company's working capital and other funding needs. In light of the Company's anticipated leverage ratios over at least the near term, the Company may not be able to borrow from sources other than Danfoss A/S on reasonable terms. If Danfoss A/S were unable to borrow or otherwise generate sufficient funds to meet the Company's borrowing requirements or were to become unwilling to continue lending to the Company on favorable terms, the Company's business, results of operations, and financial position could be materially and adversely affected.

Goodwill and Long-Lived Assets Impairment

If the price of the Company's stock were to decline to the point that its market capitalization were lower than its carrying value, the Company may be required to perform interim impairment tests on goodwill or other long-lived assets. There may be other triggering events that indicate that the carrying amount of goodwill or long-lived assets may not be recoverable from future cash flows. If the Company determines that any goodwill or other long-lived asset amounts need to be written down to fair values, this could result in a charge that may be material to the Company's operating results and financial condition.

International Operations

The Company depends on the strength of the economies in various parts of the world, particularly in the U.S. and Europe. As a result of this worldwide exposure, net revenue and profitability may be harmed as a result of economic conditions in the major markets in which the Company operates, including, but not limited to, recessions, inflation and deflation, general weakness in the agriculture, construction and

specialty markets, changes in governmental laws and policies, government embargoes or foreign trade restrictions, duties and tariffs, import and export controls, and changes in consumer purchasing power.

Technology Change

The hydraulic industry and markets for component parts of mobile hydraulics are subject to technological change, evolving industry standards, changing customer requirements and improvements in and expansion of product offerings. Although the Company believes that it has the technological capabilities to remain competitive, technological advances or developments by competitors or others could result in the Company needing to make significant capital expenditures in order to remain competitive and to avoid material adverse effects on its business, financial conditions and results of operations.

Common Business System

The Company has implemented a common business system at the majority of its locations. Any significant problems incurred related to operation of the system may delay or stop manufacturing and hinder the Company's ability to ship product in a timely manner or affect the Company's ability to access financial information. These problems could result in the loss of customers, a decrease in revenue, or significant costs to correct the problem.

Raw Material Availability

The Company purchases raw materials and component parts from suppliers to be used in the manufacture of products. Due to the worldwide economic situation many of the raw material suppliers have reduced their output accordingly. In the past year the Company has been able to reduce its inventory levels significantly; this, accordingly, has led to a decrease in its demand for raw materials. In the event of a substantial increase in demand, difficulties in purchasing raw materials and price increases may be experienced.

Pricing and Competitive Pressures from OEM Customers

A majority of the Company's sales are directly to OEM customers. OEM customers continue to use their positions as volume purchasers in the mobile hydraulics market to obtain preferential pricing and to obtain substantial quality assurance protection from suppliers.

Currency Exchange Rates

The Company has a number of manufacturing sites throughout the world and sells products in several countries other than those where the product is manufactured. As a result, the Company has exposure to changing exchange rates between the various currencies in its customers' countries and the currencies in which the Company's manufacturing facilities are located. The Company's most significant foreign currency exposures are the euro, Japanese yen, Polish zloty, Chinese yuan and Danish kroner. Exchange rate fluctuations between these currencies and against the U.S. dollar or euro could adversely affect the Company's results of operations. The Company enters into forward contracts to reduce the impact of currency fluctuations on cash flows related to forecasted sales denominated in currencies other than the functional currency of the selling location.

Cyclicality: Risks Associated with General Economic Conditions

The capital goods industry in general, and mobile hydraulics industry in particular, are subject to economic cycles. Cyclical downturns had a material adverse effect on the demand for the Company's products in 2009, as well as in past years. Future cyclical downturns may negatively impact the Company's business, financial condition, and results of operations. Demand for the Company's products is dependent upon the general condition of the off-highway mobile equipment industry which may be affected by

numerous factors, including levels of construction activity, weather conditions, interest rates and access to financing. The Company's results of operations are also subject to price competition and the cost of supplies and labor, both of which are affected by general economic conditions. The Company derives substantial sales from cyclical industries, including the turf care, material handling, construction and agricultural equipment industries.

Income Tax Estimates

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is periodically under audit by tax authorities. Although management believes its tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. If the outcome of a given tax audit or related litigation is materially different from the Company's estimates, the determination could result in material differences between the Company's originally reported income tax provision or net income (loss) and the final reported financial results.

Catastrophic Events

Unforeseen events, including war, terrorism and other international conflicts, public health issues, and natural disasters such as earthquakes, hurricanes or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, could disrupt the Company's operations, disrupt the operations of suppliers or customers, or result in political or economic instability. These events could reduce demand for hydraulic and electric products and make it difficult or impossible for the Company to manufacture products, deliver products to customers, or to receive products from suppliers.

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting the Company or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to the Company or that are currently believed to be immaterial also may adversely impact the business. Should any risks or uncertainties develop into actual events, these developments could have a material adverse effect on the Company's business, financial condition, and results of operations.

Item 2. Properties.

Sauer-Danfoss Inc. conducts its manufacturing operations at 20 locations; seven in the United States, two each in Slovakia, Poland and Italy, and one each in Brazil, China, Denmark, Germany, India, Japan, and Sweden. The following table sets forth certain information relating to the Company's principal manufacturing facilities:

<u>Location</u>	<u>Segment that Uses the Facility</u>	<u>Approx. Area in Sq. Ft.</u>	<u>Owned/Leased</u>
United States			
Ames, Iowa	Propel	359,100	Owned
Sullivan, Illinois	Propel	205,000	Owned
Freeport, Illinois	Propel	197,000	Owned
Easley, South Carolina	Controls	184,000	Owned
Lawrence, Kansas	Work Function	157,500	Owned
Minneapolis, Minnesota	Controls	75,000	Leased
Princeton, Kentucky	Propel	68,000	Owned
South America			
Caxias do Sul, Brazil	Controls	90,000	Leased
Europe			
Nordborg, Denmark	Work Function and Controls	818,000	Leased
Neumünster, Germany	Propel and Controls	421,500	Owned
Povazská Bystrica, Slovakia	Propel, Work Function and Controls	357,000	Owned
Dubnica nad Váhom, Slovakia	Propel	251,000	Owned
Bielany Wroclawskie, Poland	Work Function	223,000	Leased
Wroclaw, Poland	Work Function	126,000	Owned
Bologna, Italy	Work Function	85,000	Owned
Reggio Emilia, Italy	Controls	76,500	Leased
Älmhult, Sweden	Controls	50,000	Leased
India			
Pune, India	Work Function and Controls	63,500	Owned
Asia			
Shanghai/Pudong, China	Propel and Controls	105,000	Leased
Osaka, Japan	Propel	94,000	Leased
Total		<u>4,006,100</u>	

Item 3. Legal Proceedings.

The Company has been named as a defendant in four putative stockholder class action complaints (collectively, the Lawsuits) challenging the proposal by Danfoss Acquisition Inc. (Danfoss Acquisition), a wholly owned subsidiary of Danfoss A/S (Danfoss), to make a tender offer to purchase all of the outstanding shares of Company common stock not presently held, directly or indirectly, by Danfoss (Proposed Tender Offer). Three of the Lawsuits were filed on December 23, 2009, two in the Court of Chancery of the State of Delaware by Kenneth R. Loiselle and Laurie Forrest, respectively, and the other in the Iowa District Court for Story County by John and Michelle Freise. The two Delaware lawsuits have been consolidated into a single proceeding. The fourth Lawsuit was filed on February 10, 2010, in the Iowa District Court for Story County by Scott Crouthamel. Each of the Lawsuits was filed on behalf of the named plaintiffs and the other minority stockholders of the Company. The defendants in the Lawsuits are the Company, Danfoss, Danfoss Acquisition, the directors of the Company, Klaus Murmann (a former director and current Chairman Emeritus of the Company), David J. Anderson (a former director and former Chief Executive Officer of the Company), and Frederik Lotz (a former director of the Company).

and the former Chief Financial Officer of Danfoss). Each Lawsuit is premised on allegations that the price offered in the Proposed Tender Offer is inadequate and that the defendants have breached their fiduciary duties to the Company's stockholders in connection with the Proposed Tender Offer. The plaintiffs seek, among other things, preliminary and permanent injunctive relief enjoining the Proposed Tender Offer, rescission of the Proposed Tender Offer, and payment of damages and costs incurred as a result of the Proposed Tender Offer. The Company believes that it has valid defenses with respect to these claims and intends to defend itself vigorously against them. The Lawsuits are all in preliminary stages, so it is not possible for the Company to predict their outcomes with any certainty. It is possible that one or more of the Lawsuits could have a materially adverse effect on the Company's results of operations, liquidity, or financial position.

From time to time, the Company is involved in other legal matters in the ordinary course of its business. The Company intends to defend itself vigorously against all such claims. It is the Company's policy to accrue for amounts related to lawsuits brought against it if it is probable that a liability has been incurred and an amount can be reasonably estimated. Although the outcome of such matters cannot be predicted with certainty and no assurances can be given with respect to such matters, the Company believes that the outcome of those ordinary-course matters in which it is currently involved will not have a materially adverse effect on its results of operations, liquidity, or financial position.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information regarding the executive officers of the Company:

Name	Age	Position	Year Appointed
Sven Ruder(1)	53	President and Chief Executive Officer	2009
Jesper V. Christensen(2)	40	Executive Vice President and Chief Financial Officer	2009
C. Kells Hall(3)	61	Executive Vice President and President Propel Division	2009
Timothy P. Hanson(3)(4)	59	Vice President—Sales and Marketing	2010
Wolfgang Schramm(5)	55	Executive Vice President and President Controls Division	2007
Kenneth D. McCuskey(3)	55	Vice President and Chief Accounting Officer, Secretary	2000
Charles M. Cohrs(3)	47	Treasurer	2005

(1) Prior to joining the Company, Mr. Ruder was employed as President of the Motion Controls Division of Danfoss A/S, the majority stockholder of the Company.

(2) Prior to joining the Company, Mr. Christensen was employed as Vice President, Finance, IT & HR in the Motion Controls Division of Danfoss A/S, the majority stockholder of the Company.

(3) These executive officers have served in various capacities with the Company or its subsidiaries for more than the past five years.

(4) Mr. Hanson is filling the position of Chief Marketing Officer on an interim basis until a permanent replacement is identified. Mr. Hanson plans to retire in August 2010.

(5) Prior to joining the Company, Mr. Schramm was employed by Visteon Corporation as Executive Director Advanced Technology.

Item 4. Reserved

PART II

Item 5. Market for the Company's Common Stock, Related Stockholder Matters and Company Purchases of Common Stock.

Market and Dividend Information

The Company's Common Stock is traded on the New York Stock Exchange. As of March 1, 2010 there were 202 stockholders of record.

The Company historically paid a quarterly dividend. Quarterly dividends are subject to Board of Directors approval. On March 13, 2009 the Board of Directors voted to suspend the Company's quarterly dividend indefinitely, beginning with the dividend that would ordinarily have been declared during the first quarter of 2009.

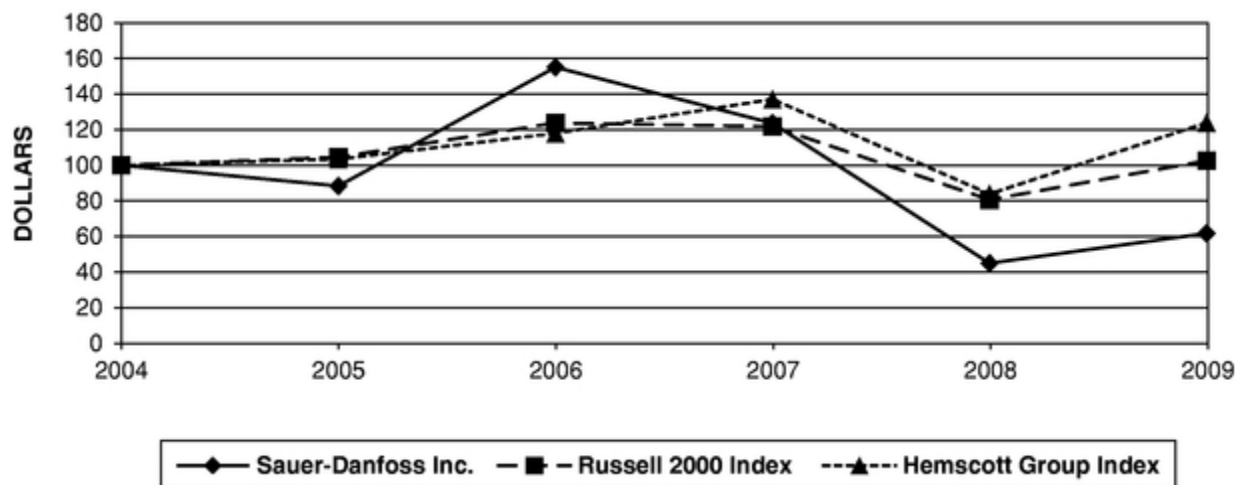
The following table sets forth the high and low prices on the New York Stock Exchange for the Company's Common Stock since January 1, 2008, and the quarterly cash dividends declared in 2009 and 2008:

	1st	2nd	3rd	4th	Full Year
2009					
High	\$ 10.13	\$ 7.08	\$ 8.19	\$ 12.68	\$ 12.68
Low	\$ 2.43	\$ 2.37	\$ 4.50	\$ 6.71	\$ 2.37
Dividends	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2008					
High	\$ 25.41	\$ 37.93	\$ 35.10	\$ 24.75	\$ 37.93
Low	\$ 17.68	\$ 22.23	\$ 22.63	\$ 5.52	\$ 5.52
Dividends	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.72

Performance Graph

The following graph shows a comparison of the cumulative total returns from December 31, 2004 to December 31, 2009, for the Company, the Russell 2000 Index and the Hemscoff, Inc.—Diversified Machinery Index ("Hemscoff Group Index"). The graph assumes that \$100 was invested on December 31, 2004 in the Company's common stock, the Russell 2000 Index and the Hemscoff Group Index, a peer group index, and that all dividends were reinvested.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
AMONG SAUER-DANFOSS INC.,
RUSSELL 2000 INDEX AND HEMSCOTT GROUP INDEX**



ASSUMES \$100 INVESTED ON 12/31/04
ASSUMES DIVIDEND REINVESTMENT
FISCAL YEAR ENDING 12/31/09

Equity Compensation Plan Information

The following table summarizes, as of December 31, 2009, information about compensation plans under which equity securities of the Company are authorized for issuance:

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u> (a)	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u> (b)	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column(a))</u> (c)
Equity compensation plans approved by security holders	293,803	\$ 0.00	4,691,210

The Company does not have any equity compensation plans that were not approved by security holders. Refer to Note 13 in the Notes to the Consolidated Financial Statements on pages F-35 through F-37 of this report for a description of the equity compensation plans.

Column (a) includes performance units granted in 2008. The extent to which the performance goals established for each grant are met will determine how many shares of common stock are issued upon completion of the three-year performance period. Subsequent to December 31, 2009, the Company's Compensation Committee determined that the 2007 performance units would vest at 0.0 percent of the target levels, because the performance criteria established when such units were awarded had not been met. Therefore no amounts are included above for the 2007 performance units. The 2008 performance units are included at 100 percent of the target levels.

Column (c) includes 1,343,294 shares available for future issuance under the Company's 1998 Long-Term Incentive Plan, 3,192,559 shares available for issuance under the Company's 2006 Omnibus Incentive Plan, and 155,357 shares available for issuance under the Company's Non-Employee Director Stock Option and Restricted Stock Plan. Each of these plans permits the Company to issue common stock at times other than upon the exercise of options, warrants, or rights; for example, issuance in the form of restricted stock grants.

Item 6. Selected Financial Data.

SELECTED FINANCIAL DATA

	2009	2008	2007	2006	2005
	(in millions except per share)				
Operating Data:					
Net sales	\$ 1,159.0	\$ 2,090.5	\$ 1,972.5	\$ 1,739.1	\$ 1,547.8
Gross profit	128.0	435.6	427.7	396.8	357.7
Selling, general and administrative	209.7	258.5	233.8	215.6	217.1
Research and development	61.4	82.9	70.6	61.9	58.7
Impairment charges	50.8	58.2	—	1.5	—
Loss on sale of businesses and asset disposals	16.4	9.6	9.4	1.7	1.4
Total operating expenses	338.3	409.2	313.8	280.7	277.2
Total interest expense, net	48.4	24.6	22.7	17.8	15.7
Net income (loss)	(345.8)	(29.1)	47.2	54.0	34.8
Per Share Data:					
Income (loss) per common share, basic	\$ (7.15)	\$ (0.60)	\$ 0.98	\$ 1.13	\$ 0.73
Income (loss) per common share, diluted	\$ (7.15)	\$ (0.60)	\$ 0.98	\$ 1.12	\$ 0.73
Cash dividends declared per share	\$ —	\$ 0.72	\$ 0.72	\$ 0.60	\$ 0.48
Weighted average basic shares outstanding	48.3	48.2	48.1	47.7	47.5
Weighted average diluted shares outstanding	48.3	48.2	48.3	48.2	47.8
Balance Sheet Data:					
Inventories	\$ 177.6	\$ 325.5	\$ 318.8	\$ 272.3	\$ 238.9
Property, plant and equipment, net	513.5	598.4	562.8	504.0	450.4
Total assets	1,068.3	1,467.7	1,500.4	1,307.1	1,166.5
Total debt	533.2	491.4	444.0	349.6	332.3
Stockholders' equity	154.6	477.9	586.0	515.5	494.2
Debt to total capital	77.5%	50.7%	43.1%	40.4%	40.6%
Other Data:					
Backlog (at year-end)	\$ 509.5	\$ 743.7	\$ 921.4	\$ 631.0	\$ 504.2
Depreciation and amortization	117.1	113.0	102.3	95.7	88.3
Capital expenditures	43.0	198.6	135.6	116.2	95.2
EBITDA (1)	(89.9)	175.6	212.6	207.6	172.3
Cash flows from (used in):					
Operating activities	86.8	183.5	98.1	167.9	116.3
Investing activities	(42.2)	(187.5)	(122.2)	(109.3)	(93.3)
Financing activities	(24.7)	4.7	22.1	(45.0)	(20.1)

(1)

EBITDA represents net income plus net interest expense, income tax expense, depreciation and amortization, long-lived asset impairment charge and noncontrolling interest. The impairment charge is included as it will reduce depreciation in future years. EBITDA may not be comparable to similarly titled measures reported by other companies. While EBITDA should not be construed as a substitute for operating income or a better indicator of liquidity than cash flow from operating activities, which are determined in accordance with accounting principles generally accepted in the United States, it is included herein to provide additional information as management of the Company believes it provides an indication with respect to the ability of Sauer-Danfoss to meet its future debt service, capital

expenditures, and working capital requirements. The following table further demonstrates how EBITDA is derived from cash flows from operating activities:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities	\$ 86.8	\$ 183.5	\$ 98.1	\$ 167.9	\$ 116.3
Increase (decrease) in working capital, excluding the effects of acquisitions					
Accounts receivable, net	(91.4)	(71.7)	38.5	24.5	4.8
Inventories	(153.4)	16.8	36.6	14.2	24.9
Prepaid and other current assets	5.0	7.9	11.1	6.1	(7.9)
Accounts payable	54.2	14.5	(11.0)	(27.2)	13.3
Accrued liabilities	20.7	(23.6)	1.5	(14.0)	(17.6)
Deferred income taxes and other	(121.2)	9.5	(3.7)	1.3	7.9
Interest expense, net	48.4	24.6	22.7	17.8	15.7
Tax expense	61.0	14.1	18.8	17.0	14.9
EBITDA	<u>\$ (89.9)</u>	<u>\$ 175.6</u>	<u>\$ 212.6</u>	<u>\$ 207.6</u>	<u>\$ 172.3</u>

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Safe Harbor Statement

This Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other portions of this annual report on Form 10-K, contain certain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. All statements regarding future performance, growth, sales and earnings projections, conditions or developments are forward-looking statements. Words such as "anticipates," "in the opinion," "believes," "intends," "expects," "may," "will," "should," "could," "plans," "forecasts," "estimates," "predicts," "projects," "potential," "continue," and similar expressions may be intended to identify forward-looking statements.

Actual future results may differ materially from those described in the forward-looking statements due to a variety of factors. Readers should bear in mind that past experience may not be a good guide to anticipating actual future results. Throughout 2009 the economies in the U.S., Europe, and Asia-Pacific suffered from the global recession and credit crisis, weakness in the housing and residential construction markets, weakness in the commercial and public-sector construction markets, job losses, and uncertainty surrounding the effects of government fiscal stimulus plans, interest rates, and crude oil prices. A prolonged downturn in the Company's business segments could adversely affect the Company's revenues and results of operations. Other factors affecting forward-looking statements include, but are not limited to, the following: specific economic conditions in the agriculture, construction, road building, turf care, material handling and specialty vehicle markets and the impact of such conditions on the Company's customers in such markets; the cyclical nature of some of the Company's businesses; the ability of the Company to win new programs and maintain existing programs with its original equipment manufacturer (OEM) customers; the highly competitive nature of the markets for the Company's products as well as pricing pressures that may result from such competitive conditions; the continued operation and viability of the Company's significant customers; the Company's execution of internal performance plans; difficulties or delays in manufacturing; the effectiveness of the Company's cost-reduction and productivity improvement efforts; competing technologies and difficulties entering new markets, both domestic and foreign; changes in the Company's product mix; future levels of indebtedness and capital spending; the ability and willingness of Danfoss A/S, the Company's majority stockholder, to lend money to the Company at sufficient levels and on terms favorable enough to enable the Company to meet its capital needs; the Company's ability to access the capital markets or traditional credit sources to supplement or replace the Company's borrowings from Danfoss A/S if the need should arise; the Company's ability over time to reduce the relative level of debt compared to equity on its balance sheet; claims, including, without limitation, warranty claims, field recall claims, product liability claims, charges or dispute resolutions; ability of suppliers to provide materials as needed and the Company's ability to recover any price increases for materials in product pricing; the Company's ability to attract and retain key technical and other personnel; labor relations; the failure of customers to make timely payment, especially in light of the current credit crisis; any inadequacy of the Company's intellectual property protection or the potential for third-party claims of infringement; global economic factors, including currency exchange rates; credit market disruptions and significant changes in capital market liquidity and funding costs affecting the Company and its customers; general economic conditions, including interest rates, the rate of inflation, and commercial and consumer confidence; energy prices; the impact of new or changed tax and other legislation and regulations in jurisdictions in which the Company and its affiliates operate; actions by the U.S. Federal Reserve Board and the central banks of other nations; actions by other regulatory agencies, including those taken in response to the global credit crisis; actions by rating agencies; changes in accounting standards; worldwide political stability; the effects of terrorist activities and resulting political or economic instability; natural catastrophes; U.S. military action overseas; and the effect of acquisitions, divestitures, restructurings, product withdrawals, and other unusual events.

The Company cautions the reader that this list of cautionary statements and risk factors is not exhaustive. The Company expressly disclaims any obligation or undertaking to release publicly any updates or changes to these forward-looking statements to reflect future events or circumstances.

About the Company

Sauer-Danfoss Inc. and subsidiaries (the Company) is a worldwide leader in the design, manufacture, and sale of engineered hydraulic and electronic systems and components that generate, transmit and control power in mobile equipment. The Company's products are used by original equipment manufacturers (OEMs) of mobile equipment, including construction, road building, agricultural, turf care, material handling, and specialty equipment. The Company designs, manufactures, and markets its products in the Americas, Europe, and the Asia-Pacific region, and markets its products throughout the rest of the world either directly or through distributors.

Executive Summary of 2009 Compared to 2008

The nature of the Company's operations as a global producer and supplier in the fluid power industry means the Company is impacted by changes in local economies, including currency exchange rate fluctuations. In order to gain a better understanding of the Company's base results, a financial statement user needs to understand the impact of those currency exchange rate fluctuations. The following table summarizes the change in the Company's results from operations by separately identifying changes due to currency fluctuations and the underlying change in operations from 2008 to 2009. This analysis is more consistent with how the Company's management internally evaluates results.

(in millions)	2008	Currency fluctuations	Underlying change	2009
Net Sales	\$ 2,090.5	\$ (36.1)	\$ (895.4)	\$ 1,159.0
Gross Profit	435.6	(4.2)	(303.5)	127.9
% of Net Sales	20.8%			11.0%
Selling, general and administrative	258.5	(8.4)	(40.4)	209.7
Research and development	82.9	(2.3)	(19.2)	61.4
Impairment charges	58.2	—	(7.4)	50.8
Loss on sale of businesses and asset disposals	9.6	0.1	6.7	16.4
Total operating costs	409.2	(10.6)	(60.3)	338.3
Operating income (loss)	26.4	6.4	(243.2)	(210.4)
% of Net Sales	1.3%			(18.2)%
Interest expense, net	(24.6)	1.3	(25.1)	(48.4)
Loss on early retirement of debt	—	—	(15.8)	(15.8)
Other, net	0.9	0.1	2.3	3.3
Income (loss) before income taxes	2.7	7.8	(281.8)	(271.3)
% of Net Sales	0.1%			(23.4)%
Income tax expense	(14.0)	0.6	(47.6)	(61.0)
Net income (loss)	(11.3)	8.4	(329.4)	(332.3)
Net income (loss) attributable to noncontrolling interest, net of tax	(17.8)	—	4.3	(13.5)
Net income (loss) attributable to Sauer-Danfoss Inc.	\$ (29.1)	\$ 8.4	\$ (325.1)	\$ (345.8)

Net sales for the year ended December 31, 2009 decreased 43 percent compared to the year ended December 31, 2008, excluding the effects of currency. Net sales decreased in all regions and segments. Excluding the impacts of currency, sales declined 48 percent in Europe, 42 percent in the Americas and

27 percent in Asia-Pacific. Sales in the Work Function segment decreased by 49 percent, sales in the Controls segment were down 44 percent, followed by a reduction of 39 percent in the Propel segment.

Gross profit declined 70 percent during the year ended December 31, 2009, excluding the impact of currency. This decline was primarily driven by reduced sales volume. Other contributing factors included inventory valuation allowances of \$13.8 million, accelerated depreciation of \$4.0 million, and restructuring charges of \$5.8 million related to the closure of the Hillsboro, Oregon; Lawrence, Kansas; and Odense, Denmark locations.

Selling, general and administrative costs decreased 16 percent during 2009 when compared to the same period in 2008, excluding the effects of currency. This decrease is primarily due to cost reduction efforts taken as a result of the economic downturn, as well as a reduction in costs of \$6.6 million related to the implementation of a common business system. Offsetting these cost reductions were severance costs of \$18.2 million and \$4.5 million of restructuring costs related to the closure of the Hillsboro location and the exit from the electric drives business in 2009, compared to similar costs of \$4.9 million in 2008. Research and development costs decreased 23 percent excluding the effects of currency due to cost reduction efforts.

The Company reported goodwill impairment charges of \$50.8 million during the first quarter of 2009 related to the valves reporting unit within the Controls segment. In 2008 the Company reported impairment charges of \$58.2 million, consisting of \$22.9 million of goodwill impairment, and property, plant and equipment impairment of \$35.3 million. The goodwill impairment related to the motors and steering reporting units within the Work Function segment and the electric drives reporting unit within the Controls segment. The impairment charges were incurred as a result of lower profitability in the reporting units than the Company had previously expected, and lower future expectations in certain end markets. The property, plant and equipment impairment related to the Work Function segment and resulted from lower earnings expectations related to the products produced within the asset group.

During the year ended December 31, 2009 the Company sold its alternating current (AC) electric motor business for the material handling market. In connection with this transaction the Company incurred charges of \$6.3 million during 2009 and \$8.4 million in 2008. In addition, during 2009 the Company incurred a loss of \$2.7 million on the sale of its steering column business in Kolding, Denmark. These activities were part of the Company's plan to divest of product lines that do not fit the Company's long-term strategic direction. During the year ended December 31, 2008, the Propel segment recorded a gain of \$1.4 million related to the sale of the LaSalle, Illinois plant.

The Company refinanced various credit agreements during 2009, which resulted in higher interest rates and an increase to interest expense of \$25.1 million over 2008. This also resulted in a \$15.8 million loss on early retirement of debt in 2009.

Operating Results—2009 Compared to 2008

Sales Growth by Market

The following table summarizes the Company's sales growth by market. The table and following discussion is on a comparable basis, which excludes the effects of currency fluctuations.

	Americas	Asia-Pacific	Europe	Total
Agriculture/Turf Care	(24)%	(24)%	(31)%	(26)%
Construction/Road Building	(58)	(36)	(66)	(57)
Specialty	(71)	(15)	(51)	(53)
Distribution	(46)	(25)	(39)	(39)

Agriculture/Turf Care

Sales into the agriculture/turf care market decreased in all regions during the year ended December 31, 2009 compared to 2008. Sales into the agriculture market in the Americas remained strong during the first quarter, then declined sharply as commodity prices began a downward trend and customers focused on inventory reduction. Commodity prices began to stabilize during the fourth quarter, while the Brazilian market showed improvement during the second half of the year compared to the first and second quarters. The European agriculture market continued to decline due to falling commodity prices and the worldwide economic crisis. Turf care sales continue to suffer from depressed housing markets and reduced consumer spending. The Asia-Pacific region contributes less than 5 percent of the sales in the agriculture/turf care market, and therefore does not significantly impact the total.

Construction/Road Building

Construction /road building sales were down in all regions during the year ended December 31, 2009 compared to 2008. The sales decline was due to poor economic conditions worldwide, depressed housing and non-residential construction markets, and customers' focus on reducing inventory levels. Non-residential construction slowed rapidly in the Americas, and state government budget problems caused road building to remain at extraordinarily low levels. The Asia-Pacific region experienced strong sales in China due to government stimulus programs and strong demand for mixers. However, this was more than offset by reduced sales in Japan, which depends heavily on export markets.

Specialty

Specialty vehicles are comprised of a variety of markets including forestry, material handling, marine, waste management and waste recycling. Overall sales into the specialty vehicle market decreased 53 percent compared to 2008. Material handling sales were down across all regions due to poor economic conditions worldwide and severely depressed non-residential construction markets. Offsetting the reduced material handling sales in the Asia-Pacific region was an increase in specialty sales in China due to investments made by the Chinese government, as well as increased sales related to the carrier business for railroad construction. The divestiture of the electric drives business also had a negative impact on sales in Europe and Asia-Pacific.

Distribution

Products related to all of the above markets are sold to distributors, who then serve smaller OEMs.

Order Backlog

The following table shows the Company's order backlog and orders written activity for 2008 and 2009, separately identifying the impact of currency fluctuations.

(in millions)	2008	Currency fluctuation	Underlying change	2009
Backlog at				
December 31	\$ 743.7	\$ 9.8	\$ (244.0)	\$ 509.5
Orders written	1,927.7	(24.9)	(989.5)	913.3

Total order backlog at the end of 2009 was \$509.5 million, compared to \$743.7 million at the end of 2008. On a comparable basis, excluding the impact of currency fluctuation, order backlog decreased 33 percent compared to 2008. New sales orders written for 2009 were \$913.3 million, a decrease of 51 percent compared to 2008, excluding the impact of currency fluctuations. The decrease in backlog and order entry is due to the global recession.

Business Segment Results

The following discussion of operating results by reportable segment relates to information as presented in Note 17 in the Notes to Consolidated Financial Statements. Segment income is defined as the respective segment's portion of the total Company's net income, excluding net interest expense, income taxes, noncontrolling interest, and global service expenses. Propel products include hydrostatic transmissions and related products that transmit the power from the engine to the wheel to propel a vehicle. Work Function products include steering motors as well as gear pumps and motors that transmit power for the work functions of the vehicle. Controls products include electrohydraulic controls, microprocessors, electric drives and valves that control and direct the power of a vehicle.

The following table provides a summary of each segment's net sales and segment income, separately identifying the impact of currency fluctuations during the year.

(in millions)	2008	Currency fluctuation	Underlying change	2009
Net sales				
Propel	\$ 1,016.6	\$ (7.5)	\$ (395.7)	\$ 613.4
Work Function	561.4	(14.1)	(272.6)	274.7
Controls	512.5	(14.5)	(227.1)	270.9
Segment income (loss)				
Propel	\$ 156.8	\$ 1.1	(157.9)	\$ 0.0
Work Function	(65.7)	4.4	(20.6)	(81.9)
Controls	(21.4)	2.5	(82.2)	(101.1)
Global Services and other expenses, net	(42.4)	(0.1)	18.6	(23.9)

Propel Segment

The Propel segment experienced a 39 percent decrease in sales, excluding the effects of currency fluctuations, during 2009 due to weak global economic conditions. The Propel segment experienced an 11 percentage point decrease in operating profit margin in 2009 compared to 2008 mainly due to reduced sales volume resulting in less absorption of fixed production costs, as well as additional inventory reserves of \$8.3 million and accelerated depreciation of \$3.4 million due to changing the production location of a product line. Contributing to the reduction in segment income was a \$12.7 million increase in severance costs over 2008, an increase in field recall costs of \$6.6 million, and a loss on disposal of fixed assets of \$3.1 million. Operating expenses were reduced by \$19.7 million due to a focus on reducing costs and lower payroll costs as a result of headcount reductions. In addition, in 2008 the Propel segment recognized a gain on sale of a building of \$1.4 million.

Work Function Segment

Sales in the Work Function segment decreased 49 percent in 2009 compared to 2008, excluding the effects of currency fluctuations, due to weak global economic conditions. The reduction in segment income of \$20.6 million, excluding the effects of currency fluctuations, was driven by reduced sales, restructuring costs of \$3.7 million related to the closure of the Lawrence, Kansas facility, \$2.7 million related to the sale of the steering column business in Kolding, Denmark, and an increase in severance costs of \$1.7 million over 2008 due to headcount reductions related to lower sales. Offsetting the impact of these items in the year-over-year comparison was a reduction in expedited freight costs of \$8.4 million, reduced depreciation of \$4.4 million due to the impairment of long-lived assets at December 31, 2008, and a reduction in total operating expenses of \$18.7 million. In 2008 the Work Function segment recognized impairment charges of \$17.4 million and \$35.3 million, for goodwill and property, plant and equipment, respectively.

Controls Segment

Net sales in the Controls segment decreased 44 percent from 2008, excluding the effects of currency fluctuations, due to weak global economic conditions. Segment income decreased \$82.2 million during 2009 due to decreased sales levels, a goodwill impairment charge of \$50.8 million related to the valves reporting unit, and an increase to employee severance costs of \$2.2 million compared to 2008. In addition, costs of \$6.3 million related to the alternating current (AC) product line, which was sold in the second quarter of 2009, and restructuring costs of \$8.7 million related to the closure of the Hillsboro, Oregon facility and the exit of the electric drives business were recognized in 2009. Excluding the restructuring and severance costs, operating expenses were reduced by \$22.5 million. Also, in 2008 the Controls segment recognized goodwill impairment charges of \$5.5 million.

Global Services and other expenses, net

Segment costs in Global Services and other expenses, net, relate to internal global service departments, along with the operating costs of the Company's executive office. Global services include such costs as consulting for special projects, tax and accounting fees paid to outside third parties, internal audit, certain insurance premiums, and the amortization of intangible assets from certain business combinations. Global services and other expenses decreased \$18.6 million, or 44 percent excluding the impacts of currency. This was partially due to fact that 2008 costs included \$1.6 million for an acquisition that was not consummated and \$6.6 million associated with the implementation of a common business system. In 2009 the Company recognized a \$4.4 million gain of foreign currency transactions in 2009 compared to a \$1.0 million gain in 2008.

Income Taxes

The Company incurred income tax expense of \$61.0 million on a loss of \$271.2 million in 2009.

In 2009 the Company recorded \$50.8 million for the impairment of goodwill which was not deductible for income tax purposes and therefore no tax benefit was recorded on this expense. Valuation allowances of \$126.9 million were recorded as tax expense in 2009 which relates to impaired tax assets in the U.S., Italy, China and Denmark. Other non-deductible expenses and the worldwide earnings mix also impacted 2009 income tax expense.

Executive Summary of 2008 Compared to 2007

The following table summarizes the change in the Company's results from operations by separately identifying changes due to currency fluctuations and the underlying change in operations from 2007 to 2008. This analysis is more consistent with how the Company's management internally evaluates results.

(in millions)	2007	Currency fluctuations	Underlying change	2008
Net Sales	\$ 1,972.5	\$ 85.0	\$ 33.0	\$ 2,090.5
Gross Profit	427.7	21.9	(14.0)	435.6
% of Net Sales	21.7%			20.8%
Selling, general and administrative	233.8	10.4	14.3	258.5
Research and development	70.6	3.6	8.7	82.9
Impairment charges	—	—	58.2	58.2
Loss on sale of businesses and asset disposals	9.4	0.5	(0.3)	9.6
Total operating costs	313.8	14.5	80.9	409.2
Operating income	113.9	7.4	(94.9)	26.4
% of Net Sales	5.8%			1.3%
Interest expense, net	(22.7)	(0.9)	(1.0)	(24.6)
Other, net	(3.6)	(2.3)	6.8	0.9
Income (loss) before income taxes	87.6	4.2	(89.1)	2.7
% of Net Sales	4.4%			0.1%
Income tax expense	(18.8)	(0.8)	5.6	(14.0)
Net income (loss)	68.8	3.4	(83.5)	(11.3)
Net income (loss) attributable to noncontrolling interest, net of tax	(21.6)	(0.5)	4.3	(17.8)
Net income (loss) attributable to Sauer-Danfoss Inc.	\$ 47.2	\$ 2.9	\$ (79.2)	\$ (29.1)

Net sales for the year ended December 31, 2008 increased 2 percent compared to the year ended December 31, 2007, excluding the effects of currency. Sales increased 3 percent excluding the effects of currency and divestitures. Excluding the effects of currency and divestitures, sales increased 3 percent in the Americas and 23 percent in Asia-Pacific, while sales remained nearly level in Europe. Sales in the Propel segment were up 4 percent, sales in the Work Function segment increased 2 percent and sales in the Controls segment increased 1 percent.

Gross profit declined 3 percent during the year ended December 31, 2008, excluding the impact of currency. This decline was primarily driven by \$11.2 million in severance costs related to actions taken in response to the slowing economy, and a \$10.4 million increase in field recall costs, primarily related to the Controls segment. During the year ended December 31, 2007, the Propel and Controls segments incurred \$10.4 million of restructuring costs primarily to relocate production lines to other production facilities within the Company and remaining costs to close the LaSalle, Illinois plant.

Selling, general and administrative costs increased 6 percent during 2008 when compared to the same period in 2007, excluding the effects of currency. This increase was primarily attributed to \$4.9 million of severance costs, and a \$7.8 million increase in sales and marketing costs, excluding the impacts of currency, due primarily to the addition of a new sales office in Russia, as well as increases in headcount earlier in 2008. Research and development costs increased 12 percent excluding the impacts of currency, primarily driven by increasing product development, particularly in the Controls and Propel segments.

The Company reported impairment charges of \$58.2 million, consisting of goodwill impairment charges of \$22.9 million and property, plant, and equipment impairment charges of \$35.3 million. The

goodwill impairment related to the motors and steering reporting units within the Work Function segment and the electric drives reporting unit within the Controls segment. It was incurred as a result of lower profitability in the reporting units than the Company had previously expected, and lower future expectations in certain end markets. The property, plant and equipment impairment related to the Work Function segment and resulted from lower expectations related to the products produced within the asset group.

During the year ended December 31, 2008 the Company signed an agreement to sell its alternating current (AC) electric motor business for the material handling market. In connection with this transaction, which closed in 2009, the Company incurred charges of \$8.4 million in 2008. During the year ended December 31, 2007 the Company incurred a loss of \$6.6 million related to the sale of the direct current (DC) electric motor business located in Berching, Germany and a loss of \$2.4 million on the sale of the assets and product lines which were manufactured in Swindon, England. These activities were part of the Company's plan to divest of product lines that do not fit the Company's long-term strategic direction.

During the year ended December 31, 2008, the Propel segment recorded a gain of \$1.4 million related to the sale of the LaSalle, Illinois plant and the Controls segment incurred \$0.4 million of equipment write-off costs related to the closure of the facility in Hillsboro, Oregon.

Operating Results—2008 Compared to 2007

Sales Growth by Market

The following table summarizes the Company's sales growth by market. The table and following discussion is on a comparable basis, which excludes the effects of currency fluctuations.

	Americas	Asia-Pacific	Europe	Total
Agriculture/Turf Care	4%	3%	22%	10%
Construction/Road Building	(5)	12	(11)	(5)
Material Handling/Specialty	(13)	77	(8)	(5)
Distribution	9	14	0	7

Agriculture/Turf Care

Sales into the agriculture/turf care markets increased 10 percent during the year ended December 31, 2008 compared to 2007. Agriculture sales in Europe remained strong throughout 2008, but started to show signs of slowing towards the end of the year. Agriculture sales increased in the Americas due to strong commodity prices, however they started to show signs of weakening late in 2008. Increased sales into the Americas agriculture market were offset by decreased sales into the turf care market, primarily driven by the decline in housing starts and concerns regarding the slowing economic conditions.

Construction/Road Building

Sales into the construction/road building markets decreased 5 percent during 2008, with the majority of the decrease occurring in the fourth quarter. The decrease is driven by an 11 percent decrease in the European market and a 5 percent decrease in the Americas market, both due to weakening economic conditions, reduced housing starts, and customers' focus on reducing inventory levels. Asia-Pacific experienced a 12 percent increase due to strength in the Chinese road building market throughout most of 2008, although this market began to show signs of weakening during the fourth quarter of 2008. Export sales out of the Asia-Pacific region also started to weaken during the fourth quarter of 2008.

Material Handling/Specialty

Specialty vehicles are comprised of a variety of markets including forestry, material handling, marine, waste management and waste recycling. Overall the material handling/specialty markets declined 5 percent, driven by declines in Europe and the Americas due to weak non-residential construction and reductions in capital expenditures by rental companies. Sales through the third quarter of 2008 were level with 2007 but decreased in the fourth quarter as a result of the economic downturn. The decreases in Europe and the Americas were partly offset by strength in the Asia-Pacific region due primarily to a strong market for railway construction machines.

Distribution

Products related to all of the above markets are sold to distributors, who then serve smaller OEMs.

Order Backlog

The following table shows the Company's order backlog and orders written activity for 2007 and 2008, separately identifying the impact of currency fluctuations.

(in millions)	2007	Currency fluctuation	Underlying change	2008
Backlog at December 31	\$ 921.4	\$ (16.2)	\$ (161.5)	\$ 743.7
Orders written	2,214.8	77.8	(364.9)	1,927.7

Total order backlog at the end of 2008 was \$743.7 million, compared to \$921.4 million at the end of 2007. On a comparable basis, excluding the impact of currency fluctuation, order backlog decreased 18 percent compared to 2007. New sales orders written for 2008 were \$1,927.7 million, a decrease of 16 percent compared to 2007, excluding the impact of currency fluctuations.

Backlog information can vary as customers alter their sales order patterns. The 16 percent decrease in orders written in 2008 reflects the downturn experienced in almost all markets and regions during the fourth quarter of 2008. This downturn is also reflected in our order backlog which declined 18 percent excluding the impacts of currency.

Business Segment Results

The following table provides a summary of each segment's net sales and segment income, separately identifying the impact of currency fluctuations during the year.

(in millions)	2007	Currency fluctuation	Underlying change	2008
Net sales				
Propel	\$ 940.7	\$ 37.8	\$ 38.1	\$ 1,016.6
Work				
Function	534.0	26.0	1.4	561.4
Controls	497.8	21.2	(6.5)	512.5
Segment income (loss)				
Propel	\$ 146.6	\$ 8.3	\$ 1.9	\$ 156.8
Work				
Function	(2.9)	0.7	(63.5)	(65.7)
Controls	17.7	0.0	(39.1)	(21.4)
Global Services and other expenses, net	(51.1)	(4.1)	12.8	(42.4)

Propel Segment

The Propel segment experienced a 4 percent increase in sales, excluding the effects of currency fluctuations, during 2008. Segment income increased 1 percent during the same period. Segment income

was negatively impacted by \$2.3 million of severance costs, offset by a gain of \$1.4 million related to the sale of a building. Field recall costs increased \$1.5 million during 2008 and administrative costs increased \$3.5 million. Restructuring costs of \$5.5 million were recorded during 2007.

Work Function Segment

Sales in the Work Function segment increased slightly, excluding the effects of currency fluctuations, during the year ended December 31, 2008. Sales increased 2 percent excluding the effects of both currency and the divestiture of product lines in Swindon, England in June 2007. Segment income was negatively impacted by goodwill impairment charges of \$17.4 million. These charges were incurred as a result of lower profitability in the motors and steering reporting units than the Company had previously expected and lower future expectations in certain end markets. The Work Function segment incurred property, plant and equipment impairment charges of \$35.3 million as a result of lower expected cash flow related to the products produced within the motors asset group. Segment income was also negatively impacted by severance costs of \$6.5 million as a result of recent actions taken in response to the slowing economy.

Controls Segment

Sales in the Controls segment decreased 1 percent for the year ended December 31, 2008, excluding the effects of currency fluctuations, compared to 2007. Segment income declined \$39.1 million. This decrease is due to several factors, including an \$8.4 million increase in field recall costs and a \$6.8 million increase in fixed overhead costs due to increases in production capacity. Also contributing to the decline in segment income was an additional \$4.5 million of research and development costs.

During 2008, the Controls segment recognized \$8.4 million of charges related to the expected sale of the AC electric motor business for the material handling market in 2009, goodwill impairment charges of \$5.5 million, severance costs of \$5.1 million, and a \$0.4 million write-down of fixed assets related to the decision to close the facility in Hillsboro, Oregon. During 2007, the Controls segment recognized a loss of \$6.6 million related to the sale of the DC electric motor business and \$3.2 million of costs to reorganize the DC and AC electric motor business prior to the sale.

Global Services and other expenses, net

Global services and other expenses decreased \$12.8 million excluding the impacts of currency, or 25 percent. This is primarily due to a \$6.6 million reduction in incentive costs during the year ended December 31, 2008, a reduction of \$4.6 million in costs associated with the implementation of the Company's common business system, and a \$5.1 million reduction in losses related to foreign currency transactions.

Income Taxes

The Company incurred income tax expense of \$14.1 million on income of \$2.7 million in 2008.

In 2008 the Company recorded \$22.9 million for the impairment of goodwill, of which \$18.8 million was not deductible for income tax purposes and therefore no tax benefit was recorded on this expense. Valuation allowances and contingency reserves of \$3.0 million were recorded as tax expense in 2008 which relates to impaired tax assets in the U.S., Italy and Germany. Other non-deductible expenses and the worldwide earnings mix also impacted the 2008 effective tax rate.

Market Risk

The Company is naturally exposed to various market risks, including changes in foreign currency exchange rates and interest rates.

Foreign Currency Changes

The Company has operations and sells its products in many different countries of the world and therefore, conducts its business in various currencies. The Company's financial statements, which are presented in U.S. dollars, can be impacted by foreign exchange fluctuations through both translation risk and transaction risk. Translation risk is the risk that the financial statements of the Company, for a particular period or as of a certain date, may be affected by changes in the exchange rates that are used to translate the financial statements of the Company's operations from foreign currencies into U.S. dollars. Transaction risk is the risk from the Company receiving its sale proceeds or holding its assets in a currency different from that in which it pays its expenses and holds its liabilities.

In previous years, the Company had been well balanced between its U.S. and European operations because the Company generated its sales in the same region in which it incurred its expenses, or shipped products between geographic regions on a balanced basis. However, in recent years the balance has shifted and the amount of sales made in U.S. dollars has increased, whereas the production costs are in a currency other than the U.S. dollar, increasing the Company's exposure to transaction risk. In 2009 the Company sold a total of \$95.9 million of product into the U.S. that had been produced in European-based currencies compared to sales into Europe of \$34.3 million of product produced in U.S. dollars. This imbalance had a significant impact on the results of the Company. In 2009 the results were favorable as the dollar strengthened in comparison to other currencies. The Company produces and sells its product in several regions of the world, however the U.S. and European transactions comprise the majority of the imbalance between regions.

The Company enters into forward contracts to minimize the impact of currency fluctuations on cash flows related to forecasted sales denominated in currencies other than the functional currency of the selling location. The forecasted sales represent sales to both external and internal parties. Any effects of the forward contracts related to sales to internal parties are eliminated in the consolidation process until the related inventory has been sold to an external party. The forward contracts qualify for hedge accounting and therefore are subject to effectiveness testing at the inception of the contract and throughout the life of the contract. In 2009, as a result of hedge accounting for the forward contracts, the Company recognized a decrease to net sales of \$5.5 million and other income of \$0.9 million. The fair value of forward contracts included on the balance sheet at December 31, 2009 was a net asset of \$0.5 million.

The Company is also impacted by translation risk in terms of comparing results from period to period. Fluctuations of currencies against the U.S. dollar can be substantial and therefore, significantly impact comparisons with prior periods. Translation affects the comparability of both the income statement and the balance sheet. As shown in the table below, the translation impact on net sales was not significant in 2009. This is because the U.S. dollar strengthened against the euro during the first half of the year, while it weakened during the second half of the year.

	Percentage Sales Growth Over Prior Year		
	2009	2008	2007
As Reported	(44.6)%	6.0%	13.4%
Without Currency Translation Impact	(42.8)	1.7	7.8

The change in the exchange rate does affect the comparability of the balance sheet between 2009 and 2008 as the balance sheet accounts are translated at the exchange rate as of December 31. The U.S. dollar weakened 2.6 percent against the euro and 2.4 percent against the Danish kroner from December 31, 2008 to December 31, 2009. The weakening of the dollar has resulted in approximately 36 percent of the Company's total balance sheet being stated approximately 2.5 percent higher than the prior year.

Interest Rate Changes

The Company has used interest rate swap agreements on a limited basis to manage the interest rate risk on its total debt portfolio. During March 2009 the Company settled both of its interest rate swap agreements due to repayment of the underlying debt agreements, resulting in a loss of \$2.0 million recognized in the consolidated statement of operations as a component of loss on early retirement of debt.

The following table summarizes the maturity of the Company's debt obligations for fixed and variable rate debt (amounts in millions):

	Fixed Rate Debt	Variable Rate Debt
2010	\$ 1.1	\$ 140.9
2011	334.0	—
2012	1.4	—
2013	1.0	—
2014	0.7	—
2015 and Thereafter	—	—
Total	\$ 338.2	\$ 140.9

Liquidity and Capital Resources

The Company's principal sources of liquidity have been cash flow from operations and from its various credit facilities. The Company historically has accessed diverse funding sources, including short-term and long-term unsecured bank lines of credit in the U.S., Europe, and Asia-Pacific, as well as the private debt markets in the U.S. as discussed in Note 8 in the Notes to Consolidated Financial Statements.

The Company determined, following the close of its 2008 fiscal year, that it would likely be unable to continue to meet the leverage ratio covenants in its various credit agreements as of the end of the first quarter of 2009. To avoid a default under the credit agreements, the Company entered into a Credit Agreement with Danfoss A/S on March 12, 2009, pursuant to which the Company had the ability to borrow up to \$490 million (Original Credit Agreement). The Agreement had no financial covenants and was set to mature on September 30, 2010. Danfoss A/S is the Company's majority stockholder.

During the third quarter of 2009, the Company determined that it would require additional liquidity of between \$100 million and \$150 million over the course of 2010 to meet its projected cash commitments. This additional cash requirement was driven by the Company's greatly reduced operating cash flows in 2009, the continued weakness in the global economy, and an anticipated increase in sales with the accompanying need to fund production activities and customer accounts receivable.

On November 9, 2009, the Company entered into a new Credit Agreement (Danfoss Agreement) with Danfoss A/S. The Agreement was approved by the Company's Board of Directors on November 9, 2009 upon the recommendation of a special committee of the Board comprised exclusively of independent directors. Pursuant to the Danfoss Agreement, the Original Credit Agreement and a \$50 million term loan from Danfoss A/S were terminated and replaced by a new unsecured credit facility permitting the Company to borrow up to \$690 million from Danfoss A/S. The Company's borrowings under the Agreement will be due and payable in full on April 29, 2011. The Danfoss Agreement contains no financial covenants but it does contain a number of affirmative and negative covenants that, among other things, require the Company to obtain the consent of Danfoss A/S prior to engaging in certain types of transactions.

The principal amount outstanding under the Danfoss Agreement bears interest at a rate equal to the U.S. prime rate or LIBOR, as in effect at times specified in the Agreement, plus 10.0 percent. The Company was required to pay a closing fee of \$2.0 million to Danfoss A/S. The Agreement also requires

the Company to pay a quarterly fee equal to 4.0 percent of the average daily unused portion of the \$690 million credit facility. The Agreement contains customary representations and warranties regarding the Company and its business and operations. It also sets forth a number of events of default for, among other things, failure to pay principal and interest, breaches of representations, warranties and covenants and various events relating to the bankruptcy or insolvency of the Company or its subsidiaries.

The Company expects to have sufficient sources of liquidity to meet its funding needs for the foreseeable future, recognizing that prior to April 29, 2011 the Company will need to either extend its current Credit Agreement with Danfoss A/S or obtain an alternative source of funding from either Danfoss A/S or a third party. However, unexpected events or circumstances, such as further reduced operating cash flows or prolonged or increased weakness in the global economy, could negatively impact the Company's liquidity to an extent that may require the Company to seek new or additional sources of cash prior to April 29, 2011.

Cash Flows from Operations

Cash provided by operations was \$86.8 million in 2009. Cash increased as a result of a \$91.4 million decrease in accounts receivable, excluding the effects of currency, due primarily to reduced sales levels in 2009, as well as a \$153.4 million decrease in inventories, excluding currency, due to lower production volume and inventory reduction efforts. These changes were offset by a \$54.2 million decrease in accounts payable at the end of 2009 compared with the end of 2008, as well as a decrease in accrued liabilities of \$20.7 million.

Total cash of the Company increased \$15.6 million from December 31, 2008 to December 31, 2009 largely due to the fact that borrowings from Danfoss require a 10-day notice, which makes it necessary for the Company to maintain a cash surplus to fund day-to-day operations. At December 31, 2009 cash balances in China totaled \$21.9 million, an increase of \$3.3 million from December 31, 2008. The Company is paying dividends from its Chinese entities to the maximum extent possible under current regulations; however, due to the nature of the governmental and other regulatory controls, it is difficult to transfer cash out of China for reasons other than payment for goods shipped into that country. As the Company continues to consider expanding its manufacturing capabilities in low-cost regions, it will make every effort to utilize the cash balances in those regions to fund future expansions. Total cash outside of China increased by \$12.3 million in 2009.

Cash Used in Investing Activities

Capital expenditures for 2009 totaled \$43.0 million compared to \$198.6 million in 2008. The decrease in 2009 is the result of lower capacity needs as sales were reduced due to the global economic downturn and management's increased focus on conserving cash.

Cash Used in Financing Activities

The Company paid dividends of \$8.7 million in the first quarter of 2009, which were declared in fourth quarter 2008. In 2008 the Company paid dividends of \$34.7 million. Net borrowings provided approximately \$22.3 million of cash during 2009 compared to \$51.8 million in 2008. During 2009 the Company paid \$10.6 million in debt origination fees related to the Original Credit Agreement and the Danfoss Agreement, and \$10.1 million in debt extinguishment and interest rate swap settlement costs. In addition, the Company makes varying distributions to its noncontrolling interest partners from its various joint venture activities depending on the amount of undistributed earnings of the business and the needs of the partners. Distributions totaled approximately \$17.7 million in 2009 compared to \$13.9 million in 2008.

Contractual Cash Obligations

The majority of the Company's contractual obligations to make cash payments to third parties are for financing obligations. These include future lease payments under both operating and capital leases. The following table discloses the Company's future commitments under contractual obligations as of December 31, 2009:

Contractual Cash Obligations(1)	Total	2010	2011	2012	2013	2014	2015 and Thereafter
Long-term debt(2)	\$ 479.1	\$ 142.0	\$ 334.0	\$ 1.4	\$ 1.0	\$ 0.7	\$ 0.0
Interest on long-term debt(3)	70.5	52.0	18.2	0.2	0.1	0.0	0.0
Capital leases	1.6	0.7	0.6	0.3	0.0	0.0	0.0
Operating leases	57.2	13.7	10.5	8.1	7.1	6.8	11.0
Rental and service agreements with related person Danfoss A/S	68.8	9.3	9.3	9.2	9.0	9.0	23.0
Total contractual cash obligations	<u>\$ 677.2</u>	<u>\$ 217.7</u>	<u>\$ 372.6</u>	<u>\$ 19.2</u>	<u>\$ 17.2</u>	<u>\$ 16.5</u>	<u>\$ 34.0</u>

The following assumptions are used in the calculation of the contractual cash obligations:

- (1) Commitments denominated in a currency other than the U.S. dollar are translated at the December 31, 2009 exchange rate.
- (2) The annual amount borrowed under revolving credit agreements does not change from the \$140.9 million borrowed at December 31, 2009, through the maturity date of the agreements.
- (3) The margin rate on variable interest rate debt does not change from December 31, 2009. The base interest rate for future years is based on the interest yield curves as of December 31, 2009.

In addition to the above contractual obligations, the Company has certain other funding needs that are non-contractual by nature, including funding of certain pension plans. In 2010 the Company anticipates contributing \$13.0 million to its pension and health benefit plans.

Other Matters

Critical Accounting Estimates

The SEC's guidance surrounding the disclosure of critical accounting estimates requires disclosures about estimates a company makes in applying its accounting policies. However, such discussion is limited to "critical accounting estimates," or those that management believes meet two criteria: 1) the accounting estimate must require a company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and 2) different estimates that the company reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of the company's financial condition, changes in financial condition or results of operations.

Besides the estimates that meet the two criteria for a "critical estimate" above, the Company makes many other accounting estimates in preparing its financial statements and related disclosures. All estimates, whether or not deemed critical, can affect the reported amounts of assets, liabilities, revenues, and expenses as well as disclosures of contingent assets and liabilities. Estimates are based on experience and information available prior to the issuance of the financial statements. Materially different results can occur as circumstances change and additional information becomes known, including estimates not deemed "critical" under the SEC's guidance.

The discussion below should be read in conjunction with disclosures elsewhere in this discussion and in the Notes to the Consolidated Financial Statements related to estimates, uncertainties, contingencies,

and new accounting standards. Significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements beginning on page F-5. The development and selection of accounting estimates, including those deemed "critical," and the associated disclosures in this discussion, have been discussed by management with the audit committee of the Board of Directors.

Inventory Valuation As a manufacturer in the capital goods industry, inventory is a substantial portion of the assets of the Company, amounting to over 15 percent of total assets at December 31, 2009. The Company must periodically evaluate the carrying value of its inventory to assess the proper valuation. This includes recording period adjustments as needed to 1) record expenses due to excess capacity, 2) provide for excess and obsolete inventory, and 3) ensure that inventory is valued at the lower of cost or market. On a quarterly basis, management within each segment performs an analysis of the underlying inventory to identify the need for appropriate write-downs to cover each of these items. In doing so, management applies consistent practices based upon historical data such as actual loss experience, past and projected usage, actual margins generated from trade sales of its products, and finally its best judgment to estimate the appropriate carrying value of the inventory.

Warranty Provisions The Company warrants its various products over differing periods depending upon the type of product and application. Consequently, the Company records liabilities for the estimated warranty costs that may be incurred under its basic warranty based on past trends of actual warranty claims compared to the actual sales levels to which those claims apply. These liabilities are accrued at the time the sales of the products are recorded. Factors that affect the Company's warranty liability include the number of units in the field currently under warranty, historical and anticipated rates of warranty claims on those units and the cost per claim to satisfy the Company's warranty obligation. The anticipated rate of warranty claims is the primary factor impacting the Company's estimated warranty obligation. Each quarter, the Company reevaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

In addition to its normal warranty liability, the Company, from time to time in the normal course of business, incurs costs to repair or replace defective products with a specific customer or group of customers. The Company refers to these as "field recalls" and in these instances, the Company will record a specific provision for the expected costs it will incur to repair or replace these products utilizing information from customers and internal information regarding the specific cost of materials and labor. Typically, field recalls are infrequent in occurrence, however, when they occur, field recalls can be for a large number of units and quite costly to rectify. Because of the sporadic and infrequent nature of field recalls, and due to the range of costs associated with field recalls, the Company cannot accurately estimate these costs at the time the products are sold. Therefore, these costs are recorded at the time information becomes known to the Company. As the field recalls are settled, the Company relieves the specific liability related to that field recall. These specific field recall liabilities are reviewed on a quarterly basis.

Goodwill and Long-Lived Asset Recovery A significant portion of the Company's total assets consist of property, plant and equipment (PP&E) and definite life intangibles, as well as goodwill. Changes in technology or in the Company's intended use of these assets, as well as changes in the broad global economy in which the Company operates, may cause the estimated period of use or the carrying value of these assets to change.

This requires the Company to periodically assess the estimated useful lives of its assets in order to match, through depreciation and amortization, the cost of those assets with the benefits derived over the period of usefulness. The useful lives of these assets can be shortened through greater use due to volume increases, a change in strategy regarding production of a certain product, rapidly changing technology such as the use of electronics and computer-operated controls, and through inadequate maintenance. Despite management's best efforts to determine the appropriate useful lives of its equipment, certain situations may arise that lead to an asset or group of assets becoming impaired, meaning their economic value becomes less than the value at which the Company is carrying the asset on its books. Examples of these

situations are product rationalization efforts or restructuring of manufacturing facilities. When these situations arise, the Company tests the assets for impairment and will write down the asset in the period when the impairment becomes known. Goodwill is tested for impairment at least annually. Goodwill is also tested if an event occurs or conditions change that would more likely than not reduce the fair value of a reporting unit below its carrying value (triggering event).

The Company completes its annual goodwill impairment valuation on December 31 each year. In the first quarter of 2009 the market value of the Company had decreased and therefore was considered a triggering event which required goodwill to be tested for impairment. The Company has identified seven reporting units that are either operating segments or one level below operating segments. In performing the impairment valuation, the Company considers declines in market values, and reconciles the sum of the estimated fair values of its reporting units to the Company's market value (based on its stock price), plus a reasonable control premium, which is estimated as that amount which would be received to sell the Company as a whole in an orderly transaction between market participants.

When testing for goodwill impairment, the Company performs a first step of the goodwill impairment test to identify a potential impairment. In doing so, the Company compares the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, goodwill may be impaired and a second step is performed to measure the amount of any impairment loss. The Company determined that the fair value of goodwill for the propel and mobile electronics reporting units was greater than their carrying values at both March 31, 2009 and December 31, 2009. However, the fair value of goodwill for the valves reporting unit was less than its carrying value at March 31, 2009 and the second step of testing was required to be performed.

In the second step, the Company compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The Company determined that the implied fair value of goodwill for the valves reporting unit was less than its carrying value by \$50.8 million which was recorded as a goodwill impairment charge in 2009.

Estimates about fair value used in the first step of the goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach is supported by other valuation approaches, such as similar transaction and guideline analyses. Under the income approach, the Company determines fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions among others. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods. At December 31, 2009 the Company had \$35.9 million of goodwill related to its propel and electronic components reporting units, which was tested for impairment and determined to not be impaired.

The Company tests its long-lived assets for recoverability at any time that an event or change in circumstances occurs that indicates the carrying amount of the long-lived assets may not be recoverable. Events or circumstances that may trigger a recoverability test include a significant change in the market price of similar long-lived assets; a change in the use of the long-lived asset due to product rationalization efforts or restructuring of manufacturing facilities; a significant adverse change in legal factors, business

climate, industry or economic conditions ; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset; historical and projected operating losses associated with the use of a long-lived asset; or an expectation that more likely than not, a long-lived asset will be disposed of significantly before the end of its previously estimated useful life. The Company reviews these factors quarterly to determine whether a trigger event has occurred. As a result of the challenging economic environment in 2009 the Company determined that the long-lived asset groups should be tested for recoverability.

The Company has seven asset groups, which are the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities. Projected cash flows for each asset group are forecasted by the controllers responsible for the business of each asset group and evaluated by management. Revenue forecasts for 2010 through 2014 were derived consistently with the Company's long-term planning and forecasting process, taking into account such factors as historical growth rates, foreseen changes in future product offerings, government regulations, and improving market conditions. For years after 2014 the Company assumed a 3 percent growth rate. In the Company's testing at December 31, 2009, capital expenditures for maintenance were assumed to be approximately 2.5 percent of revenues for the motors asset group and 2 percent of revenues for the open circuit and steering asset groups due to the nature of the long-lived assets included in each of the asset groups and planned capital expenditures to maintain the current long-lived assets.

Corporate costs for each functional area are forecasted, as well, and allocated to each asset group by the corporate controller using the same basis used for allocating actual costs for financial reporting. Allocated costs include sales and marketing, finance, human resources, and information technology. Each functional area is allocated based on an underlying allocation key. For example, sales and marketing costs are allocated based on a periodic time study that determines the amount of time spent to sell and market products in each asset group; information technology costs are allocated base on the number of licensed users working for each asset group, and finance and human resources are allocated based on sales revenue recognized by each asset group as a percent of total revenues.

At December 31, 2009 the Company tested its asset groups for recoverability by comparing the carrying value of the net assets for each asset group to the number of years needed when summing the undiscounted operating cash flows for a projected period. The Company determined that no long-lived assets were impaired. Four of the asset groups had excess cash flows that were significant and required no further evaluation. The motors, open circuit and steering asset groups had lower levels of excess cash flow and were analyzed further as follows:

<u>Asset Group</u>	<u>Projected Cash Flows Over Remaining Life</u>	<u>Projection Period(1)</u>	<u>Carrying Value of Net Assets</u>	<u>Excess</u>
Motors	\$ 103	7	\$ 95	\$ 8
Open Circuit	32	8	26	6
Steering	122	7	104	18

(1)

Number of years of projected cash flow needed to equal the carrying value of net assets.

For all three assets groups tested the projected operating cash flows during the life of the primary asset were sufficiently greater than the carrying value of the asset group, and therefore residual values of long-lived assets at the end of that period were not quantified and additional testing to quantify the fair value of long-lived assets was not performed.

Although the current economic environment appears to be improving, if it were to decline and negatively impact the Company's business, there can be no assurance that the Company's estimates and assumptions made for purposes of the Company's goodwill and long-lived asset impairment testing as of December 31, 2009 will prove to be accurate predictions of the future. If the Company's assumptions

regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, or the Company's stock price were to decline, the Company may be required to record additional goodwill impairment charges in future periods, whether in connection with the next annual impairment test or if a triggering event requires an earlier impairment test to be performed. It is not possible at this time to determine if any such future impairment charge would result, or if it does, whether the charge would be significant.

Valuation of Trade Receivables The Company records trade receivables due from its customers at the time a sale is recorded in accordance with its revenue recognition policy. The future collectability of these amounts can be impacted by the Company's collection efforts, the financial stability of its customers, and the general economic climate in which it operates. The Company applies a consistent practice of establishing an allowance for accounts that it believes may become uncollectible through reviewing the historical aging of its receivables, looking at the historical losses incurred as a percentage of net sales, and by monitoring the financial strength of its customers regarding specific outstanding accounts receivable balances. In addition, local customary practices have to be taken into account due to varying payment terms being applied in various parts of the world where the Company conducts its business. If the Company becomes aware of a customer's inability to meet its financial obligations (e.g., where it has filed for bankruptcy), the Company establishes a specific allowance for the potential bad debt to reduce the net recognized receivable to the amount it reasonably believes will be collected. The valuation of trade receivables is reviewed quarterly.

Workers Compensation The Company has an insurance policy to cover workers compensation claims in the U.S., in which the Company pays the first \$0.25 million per claim, per incident. The Company establishes its workers compensation reserve based on historic growth factors of claims and an estimate of incurred, but not reported claims. This analysis is performed on a quarterly basis.

U.S. Health Care Costs The Company self insures its U.S. health care costs for eligible employees and their qualified dependents with exposure for any one year, excluding prescription costs, limited to \$0.2 million per individual. The Company establishes reserves for its health care cost based on historic claims data and an estimate of incurred, but not reported claims. This analysis is performed on a quarterly basis.

Pensions The Company has noncontributory defined benefit pension plans for a portion of its employees. In certain countries, such as the U.S. and the U.K., these plans are funded with plan assets whereas in other countries such as Germany, the plans have historically been unfunded, which is customary. In 2007 the Company started contributing to the German pension plans. The measurement of the Company's pension obligations and costs is dependent on a variety of assumptions determined by management and used by the Company's actuaries. These assumptions include estimates of the present value of projected future pension payments to all plan participants, taking into consideration the likelihood of potential future events such as salary increases and other experience. These assumptions may have an effect on the amount and timing of future contributions. The plan trustee conducts an independent valuation of the fair value of pension plan assets.

The assumptions used in developing the required estimates include the following key factors:

Discount rates	Inflation
Salary growth	Expected return on plan assets
Retirement rates	Mortality rates

The Company bases the discount rate assumption on investment yields available at or near year-end on corporate long-term bonds rated AA. The inflation assumption is based on an evaluation of external market indicators. The salary growth assumptions reflect the Company's long-term actual experience, the near-term outlook and assumed inflation. The expected return on plan assets reflects asset allocations,

investment strategy, and the views of investment managers and other large pension plan sponsors. Retirement and mortality rates are based primarily on actual plan experience and standard industry actuarial tables, respectively. The effects of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in such future periods.

The Company's funding policy for the U.S. plans is to contribute amounts sufficient to meet the minimum funding requirement of the Employee Retirement Income Security Act of 1974, plus any additional amounts the Company may deem to be appropriate. In 2010 the Company anticipates contributing \$7.3 million to its U.S. plans, \$2.2 million to its German plans, and \$0.7 million to its U.K. plans.

Postretirement Benefits Other Than Pensions The Company provides postretirement health care benefits for certain employee groups in the U.S. This plan is contributory and contains certain other cost-sharing features such as deductibles and coinsurance. The Company does not pre-fund this plan and has the right to modify or terminate this plan in the future.

The postretirement liability, which is determined on an actuarial basis, is recognized in the Company's Consolidated Balance Sheets and the postretirement expense is recognized in the Consolidated Statements of Operations. The Company must determine the actuarial assumption for the discount rate used to reflect the time value of money in the calculation of the accumulated postretirement benefit obligation for the end of the current year and to determine the postretirement cost for the subsequent year. For guidance in determining this rate, the Company looks at investment yield trends available near year-end on corporate bonds rated AA. In addition, the Company must determine the actuarial assumption for the health care cost trend rate used in the calculation of the accumulated postretirement benefit obligation for the end of the current year and to determine the net periodic postretirement benefit cost for the subsequent year. As of December 31, 2009 a one-percentage point change in the assumed health care cost trend rate would impact the expense recognized in 2009 by \$0.2 million and would affect the postretirement benefit obligation by \$4.3 million. In 2010 the Company anticipates contributing \$2.8 million to this plan.

Deferred Income Taxes and Valuation Allowances Tax regulations may require items to be included in the tax return at different times than the items are reflected in the financial statements. Some of the differences are permanent, such as expenses that are not deductible on a tax return, and some of the differences are temporary such as the rate of depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally are attributable to items that can be used as a tax deduction or credit in a tax return in future years but the amount has already been included as an expense in the financial statements. Deferred tax liabilities generally represent deductions that have been taken on the tax return but have not been recognized as expense in the financial statements. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Management believes it is more likely than not that the Company will realize the benefits of the net deferred tax assets reported on the consolidated balance sheets.

New Accounting Policies

In June 2009 the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." The FASB Accounting Standards Codification is intended to be the source of authoritative U.S. generally accepted accounting principles (GAAP) and reporting standards recognized by the FASB. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics. The Codification does not change or alter existing GAAP and there was no impact on the Company's consolidated financial position or results of operations when it was adopted in the third quarter of 2009.

FASB ASC 805 establishes requirements for recognition and measurement of identifiable assets acquired, liabilities assumed, noncontrolling interest of the acquiree, goodwill acquired, and gain from bargain purchase. The guidance within FASB ASC 805 was issued in December 2007 and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after December 15, 2008. The Company adopted this guidance as of January 1, 2009 with no impact on the consolidated financial statements.

The FASB issued new guidance contained within ASC 810-10, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" in December 2007. The new guidance was issued to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. The Company adopted this guidance in the first quarter of 2009. Upon adoption, certain prior period amounts have been reclassified to conform to the current period financial statement presentation. These reclassifications have no impact on the previously reported financial position or results of operations.

In March 2008 the FASB issued guidance contained within ASC 815-10, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133." The guidance amends and expands disclosure requirements for derivative instruments in order to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company adopted this guidance in the first quarter of 2009 and has included the expanded disclosures in the footnotes to the Consolidated Financial Statements.

The FASB issued new guidance contained within ASC 260-10, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" in June 2008. The guidance provides guidance on the calculation of earnings per share and indicates that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities and therefore the two-class method should be applied in calculating basic and diluted earnings per share. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted this guidance in first quarter 2009 with no impact on the consolidated financial statements.

In May 2009 the FASB issued guidance contained within ASC 855-10, "Subsequent Events." This Statement incorporates guidance into accounting literature that was previously addressed only in auditing standards. The statement refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as "recognized subsequent events." Subsequent events which provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements are referred to as "non-recognized subsequent events." It also requires companies to disclose the date through which subsequent events have been evaluated and whether this date is the date the financial statements were issued or the date the financial statements were available to be issued. The Company adopted this guidance in the second quarter of 2009 with appropriate disclosures added in Note 18.

Non-Audit Services of Independent Registered Public Accounting Firm

The Company's Independent Registered Public Accounting Firm, KPMG LLP, performed the following non-audit services that have been approved by the Audit Committee of the Board of Directors: international tax planning and compliance services, expatriate tax services for persons not in a financial reporting oversight role, and statutory audits and related matters.

Outlook

Management expects sales to increase in 2010 compared to 2009 due to improved conditions in the markets the Company serves, in addition to customers who need to replenish their inventory levels. The growth in sales, combined with the fixed cost reductions achieved in 2009, should result in positive earnings from operations in 2010.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Certain market risks are discussed on pages 27-28 of this report, and the other disclosure requirements are considered either not applicable or not material.

Item 8. Financial Statements and Supplementary Data.

The Consolidated Financial Statements, Report of Management, and Report of Independent Registered Public Accounting Firm are presented on pages F-1 through F-42 of this report.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (Exchange Act) the Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2009. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, the Company's disclosure controls and procedures were effective to ensure that (a) information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (b) such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Registrant's management is responsible for establishing and maintaining a system of internal controls over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). This system is augmented by written policies and procedures, careful selection and training of financial management personnel, a continuing management commitment to the integrity of the system, and examinations by an internal audit function that coordinates its activities with the Registrant's Independent Registered Public Accounting Firm. Because of its inherent limitations, however, even the best internal control over financial reporting may not prevent or detect misstatements. It is also important to note that controls that are effective at a particular point in time may become ineffective at a later time due to changed conditions that may require new or modified controls or due to a deterioration in compliance with the controls. There were no changes in the Registrant's internal control over financial reporting during the fourth quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Under the supervision and with the participation of the Registrant's management, including the Registrant's Chief Executive Officer and Chief Financial Officer, the Registrant conducted an evaluation of the effectiveness of the Registrant's internal controls over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Registrant's evaluation under the framework in Internal Control—Integrated Framework, the Registrant's management concluded that its internal control over financial reporting was effective as of December 31, 2009.

KPMG LLP, an independent registered public accounting firm has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as a part of the audit, has issued their report, included in Item 8, on the effectiveness of the Registrant's internal control over financial reporting.

Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under this item is contained in Item 8 of this Annual Report on Form 10-K.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors of the Company is set forth under the section entitled "ELECTION OF DIRECTORS" of the Company's Proxy Statement for the annual meeting of stockholders to be held June 11, 2010 (the "Proxy Statement"), and is incorporated herein by reference. Information regarding executive officers of the Company is set forth in Part I of this report under the caption "Executive Officers of the Company." Information regarding the Company's code of conduct and code of ethics is set forth under the section entitled "GOVERNANCE OF THE COMPANY—Code of Conduct and Code of Ethics" of the Proxy Statement, and is incorporated herein by reference. Information regarding the Company's audit committee is set forth under the section entitled "GOVERNANCE OF THE COMPANY—Audit Committee" of the Proxy Statement and is incorporated herein by reference. Copies of the Worldwide Code of Legal and Ethical Business Conduct and the Code of Ethics for Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or Controller and other Senior Financial Staff are posted on the Company's website at <http://ir.sauer-danfoss.com>, and printed copies of such codes may be obtained, without charge, by written request addressed to Kenneth D. McCuskey, Corporate Secretary, 2800 E. 13th Street, Ames, Iowa 50010.

The Company's Audit Committee Charter, Compensation Committee Charter, and Corporate Governance Guidelines are posted on the Company's website set forth in the preceding paragraph. Also, printed copies of such charters and guidelines may be obtained, without charge, by sending a written request to the Corporate Secretary at the address set forth in the preceding paragraph.

Item 11. Executive Compensation

Information as to Executive Compensation is set forth under the section entitled "EXECUTIVE COMPENSATION" of the Proxy Statement, and is incorporated herein by reference. Information regarding compensation committee interlocks is set forth under the section entitled "Compensation Committee Interlocks and Insider Participation" of the Proxy Statement, and is incorporated herein by reference. The Company's compensation committee's report is set forth under the section entitled "Compensation Committee Report" of the Proxy Statement, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding securities authorized for issuance under equity compensation plans is set forth in Part II on page 16 of this report. Information regarding security ownership is set forth under the section entitled "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" of the Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

In connection with the acquisition of Danfoss Fluid Power in May 2000 and the acquisition of additional assets and business operations of the fluid power business of Danfoss A/S in January 2001, the Company has entered into several agreements with Danfoss A/S to purchase ongoing operational services from Danfoss A/S. Information regarding these relationships and agreements, in addition to other related person transactions, is set forth in Note 15 in the Notes to Consolidated Financial Statements on pages F-38 and F-39 of this report, and is incorporated herein by reference.

On November 9, 2009, the Company entered into a Credit Agreement (Danfoss Credit Agreement) with Danfoss A/S, which allows the Company to borrow up to \$690 million under an unsecured revolving credit facility. The Danfoss Credit Agreement replaced a \$490 million revolving credit facility and a \$50 million term loan, both with Danfoss A/S, which had been entered in March 2009 and December 2008,

respectively. Information regarding these relationships and loan transactions is set forth in Notes 8 and 15 in the Notes to Consolidated Financial Statements on pages F-21 through F-23 and F-38 through F-39 of this report, respectively, and is incorporated herein by reference.

Additional information regarding related person transactions is set forth under the section entitled "GOVERNANCE OF THE COMPANY—Transactions with Related Persons" of the Proxy Statement, and is incorporated herein by reference. Information about the independence of the Company's directors is set forth in the Proxy Statement under the section entitled 'GOVERNANCE OF THE COMPANY' under the subheadings 'Board of Directors' and 'Basis for Board Determination of Independence of Directors', and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding accounting services and fees is set forth under the section entitled "RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM" of the Proxy Statement, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)

The following documents are filed as a part of this report.

(1)

The following consolidated financial statements and related information, included in Item 8, are filed as a separate section of this report:

Consolidated Statements of Operations for the years ended December 31, 2009, 2008, and 2007, on page F-1.

Consolidated Balance Sheets as of December 31, 2009 and 2008, on page F-2.

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2009, 2008, and 2007, on page F-3.

Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008, and 2007, on page F-4.

Notes to Consolidated Financial Statements, December 31, 2009, 2008, and 2007, on pages F-5 through F-42.

Report of Management and Report of Independent Registered Public Accounting Firm, KPMG LLP, on pages F-43 through F-45.

(2)

The following schedule:

Schedule II, Valuation and Qualifying Accounts, on page F-46.

All other schedules for which provision is made in Regulation S-X of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3)

Exhibits

<u>Exhibit No.</u>	<u>Description of Document</u>
3.1	The Amended and Restated Certificate of Incorporation of the Company dated July 10, 2008, is attached as Exhibit 3.1 to the Company's Form 8-K filed on July 11, 2008, and is incorporated herein by reference.
3.2	The Amended and Restated Bylaws of the Company dated July 10, 2008, are attached as Exhibit 3.2 to the Company's Form 8-K filed on July 11, 2008, and are incorporated herein by reference.
4	The form of Certificate of the Company's Common Stock, \$.01 Par Value, is attached as Exhibit 4 to the Company's Form 10-Q filed on August 16, 2000 and is incorporated herein by reference.
10.1(a)	The Registration Rights Agreement is attached as Exhibit 10.1(b) to Amendment No. 1 to the Company's Form S-1 Registration Statement filed on April 23, 1998, and is incorporated herein by reference.
10.1(b)	The form of Indemnification Agreement entered into between the Company and each of its directors and certain officers is attached as Exhibit 10.1(c) to Amendment No. 1 to the Company's Form S-1 Registration Statement filed on April 23, 1998, and is incorporated herein by reference.
10.1(c)	The Lease Agreement for the Company's Osaka, Japan, facility is attached as Exhibit 10.1(d) to the Company's Form 10-K filed March 14, 2005, and is incorporated herein by reference.

Exhibit No.	Description of Document
10.1(d)	The Lease Agreement for the Company's Minneapolis, Minnesota, facility is attached as Exhibit 10.1(h) to Amendment No. 1 to the Company's Form S-1 Registration Statement filed on April 23, 1998, and is incorporated herein by reference.
10.1(e)	Amendment No. 1 to the Lease Agreement for the Company's Minneapolis, Minnesota facility, effective March 1, 2003, is attached as Exhibit 10.1(e) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(f)	Amendment No. 2 to the Lease Agreement for the Company's Minneapolis, Minnesota facility, effective March 28, 2007, is attached as Exhibit 10.1(f) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(g)	The Lease Agreement for the Company's Shanghai/Pudong, China, facility is attached as Exhibit 10.1(j) to Amendment No. 1 to the Company's Form S-1 Registration Statement filed on April 23, 1998, and is incorporated herein by reference.
10.1(h)	The Indenture of Lease agreement for the Company's Nordborg, Denmark, facility effective May 3, 2000, is attached as Exhibit 10.1(ah) to the Company's Form 10-K filed on March 30, 2001, and is incorporated herein by reference.
10.1 (i)	The Lease Agreement for the Company's leased facility in Caxias do Sul, Brazil, effective July 1, 2007, is attached as Exhibit 10.1(l) to the Company's Form 10-K filed on March 11, 2008, and is incorporated herein by reference.
10.1 (j)	The Lease Agreement for the Company's leased facility in Reggio Emilia, Italy, effective October 1, 2003, is attached as Exhibit 10.1(m) to the Company's Form 10-K filed on March 11, 2008, and is incorporated herein by reference.
10.1(k)	The Lease Agreement for the Company's leased facility in Bielany Wroclawskie, Poland, including Annex 1 effective May 16, 2008, and Annex 2 effective October 28, 2009, is attached hereto.
10.1(l)	The Lease Agreement for the Company's leased facility in Älmhult, Sweden, effective May 2007, is attached hereto.
10.1(m)	The Executive Employment Agreement with David J. Anderson dated January 1, 2003, is attached as Exhibit 10.1(m) to the Company's Form 10-K filed on March 12, 2003, and is incorporated herein by reference.
10.1(n)	The Employment Contract effective as of January 1, 2009 by and between Sauer-Danfoss GmbH & Co. OHG and Sven Ruder is attached as Exhibit 10.2 to the Company's Form 8-K filed on January 21, 2009, and is incorporated herein by reference.
10.1(o)	The Executive Employment Agreement with Karl J. Schmidt dated December 15, 2008 and effective December 31, 2008, is attached as Exhibit 10.1(q) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(p)	The Employment Contract by and between Sauer-Danfoss GmbH & Co. OHG and Hans J. Cornett dated December 12, 2008, is attached as Exhibit 10.1(r) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(q)	The Termination Agreement between Sauer-Danfoss GmbH & Co. OHG and Hans J. Cornett dated October 23, 2009, and is attached hereto.
10.1(r)	The Employment Contract by and between Sauer-Danfoss GmbH & Co. OHG and Thomas Kittel dated January 23, 2009, is attached as Exhibit 10.1(s) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(s)	The Executive Employment Agreement with Henrik Krabsen dated December 15, 2008 and effective December 31, 2008, is attached as Exhibit 10.1(t) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.

Exhibit No.	Description of Document
10.1(t)	The Executive Employment Agreement with Kenneth D. McCuskey dated December 15, 2008 and effective December 31, 2008, is attached as Exhibit 10.1(u) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(u)	The Executive Employment Agreement with Ronald C. Hanson dated December 15, 2008 and effective December 31, 2008, is attached as Exhibit 10.1(v) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(v)	The Executive Employment Agreement with Wolfgang Schramm dated December 15, 2008 and effective December 31, 2008, is attached as Exhibit 10.1(w) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(w)	The Employment Contract dated April 6, 2009 and effective as of May 1, 2009 by and between Sauer-Danfoss GmbH & Co. OHG and Jesper V. Christensen is attached as Exhibit 10.1 to the Company's Form 10-Q filed on May 6, 2009, and is incorporated herein by reference.
10.1(x)	The Change in Control Agreement between Sauer-Danfoss (US) Company Inc. and Charles K. Hall dated March 8, 2004, is attached hereto.
10.1(y)	The First Amendment to the Change in Control Agreement between Sauer-Danfoss (US) Company and Charles K. Hall dated December 20, 2008, is attached hereto.
10.1(z)	The Sauer-Danfoss Inc. 1998 Long-Term Incentive Plan is attached as Exhibit 10.1(p) to Amendment No. 1 to the Company's Form S-1 Registration Statement filed on April 23, 1998, and is incorporated herein by reference.
10.1(aa)	The Amendment, effective May 3, 2000, to the Sauer-Danfoss Inc. 1998 Long-Term Incentive Plan referred to in 10.1(z) above is attached as Exhibit 10.1(v) to the Company's Form 10-Q filed on August 16, 2000, and is incorporated herein by reference.
10.1(ab)	The Amendment to the Sauer-Danfoss Inc. 1998 Long-Term Incentive Plan effective December 4, 2002, is attached as Exhibit 10.1(bd) to the Company's Form 10-K filed on March 12, 2003, and is incorporated herein by reference.
10.1(ac)	The Second Amendment to Sauer-Danfoss Inc. 1998 Long-Term Incentive Plan is attached as Exhibit 10 to the Company's Form 8-K filed on August 24, 2006, and is incorporated herein by reference.
10.1(ad)	The Sauer-Danfoss Inc. Non-employee Director Stock Option and Restricted Stock Plan is attached as Exhibit 10.1(q) to Amendment No. 1 to the Company's Registration Statement filed on April 23, 1998, and is incorporated herein by reference.
10.1(ae)	The Amendment, effective May 3, 2000, to the Sauer-Danfoss Inc. Non-Employee Director Stock Option and Restricted Stock Plan referred to in 10.1(ad) above is attached as Exhibit 10.1(x) to the Company's Form 10-Q filed on August 16, 2000, and is incorporated herein by reference.
10.1(af)	The Amendment to the Sauer-Danfoss Inc. Non-Employee Director Stock Option and Restricted Stock Plan effective December 4, 2002, is attached as Exhibit 10.1(ak) to the Company's Form 10-K filed on March 12, 2003, and is incorporated herein by reference.
10.1(ag)	The Trademark and Trade Name Agreement dated May 3, 2000, between the Company and Danfoss A/S is attached as Exhibit 10.1(ac) to the Company's Form 10-Q filed on August 16, 2000, and is incorporated herein by reference.
10.1(ah)	The Sauer-Danfoss Inc. Deferred Compensation Plan for Selected Employees dated December 9, 2003, is attached as exhibit 10.1(bk) to the Company's Form 10-K filed on March 15, 2004, and is incorporated herein by reference.

Exhibit No.	Description of Document
10.1(ai)	First Amendment to the Sauer-Danfoss Inc. Deferred Compensation Plan for Selected Employees, effective December 31, 2005, is attached as exhibit 9.1 to the Company's Form 8-K filed on December 7, 2005, and is incorporated herein by reference.
10.1(aj)	The Sauer-Danfoss Inc. Supplemental Executive Savings & Retirement Plan (As Amended and Restated Effective as of January 1, 2008), is attached as Exhibit 10.1(ao) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(ak)	Form of 2005 Performance Unit Award Agreement under the Sauer-Danfoss Inc. 1998 Long-Term Incentive Plan is attached as exhibit 10.1(bx) to the Company's Form 10-Q filed on May 10, 2005, and is incorporated herein by reference.
10.1(al)	Form of Non-employee Director Restricted Stock Award Agreement under the Sauer-Danfoss Inc. Non-employee Director Stock Option and Restricted Stock Plan is attached as Exhibit 10.1(by) to the Company's Form 10-Q filed on May 10, 2005, and is incorporated herein by reference.
10.1(am)	The Sauer-Danfoss Inc. 409A Deferred Compensation Plan for Selected Employees (As Amended and Restated Effective as of January 1, 2008), is attached as Exhibit 10.1(ar) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.
10.1(an)	The Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan is filed as Appendix A to the Company's Definitive Proxy Statement filed on April 24, 2006, and is incorporated herein by reference.
10.1(ao)	Form of Performance Unit Award Agreement under the Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan is attached as Exhibit 10.2 to the Company's Form 8-K filed on June 7, 2006, and is incorporated herein by reference.
10.1(ap)	Form of Performance Unit Award Agreement under the Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan is attached as Exhibit 10.1 to the Company's Form 8-K filed on April 5, 2007, and is incorporated herein by reference.
10.1(aq)	Form of Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan Restricted Stock Award Agreement is attached hereto.
10.1(ar)	The 2008 Performance Unit Award Agreement with David J. Anderson dated March 12, 2008, is attached as Exhibit 10.1 to the Company's 10-Q filed on May 1, 2008, and is incorporated herein by reference.
10.1(as)	The Amended and Restated Award Agreement with David J. Anderson dated January 2, 2008, is attached as Exhibits 10.1 to the Company's Form 8-K filed on January 4, 2008, and is incorporated herein by reference.
10.1(at)	The Amended and Restated Award Agreement with David J. Anderson dated January 2, 2008, is attached as Exhibits 10.2 to the Company's Form 8-K filed on January 4, 2008, and is incorporated herein by reference.
10.1(au)	The Sauer-Danfoss Inc. Final Average Pay Supplemental Retirement Benefit Plan is attached as Exhibit 10 to the Company's Form 8-K filed on September 17, 2007, and is incorporated herein by reference.
10.1(av)	The Agreement dated December 8, 2008, by and among Sauer-Danfoss ApS, Schabmuller GmbH, Aurelius AG, and Aurelius Industriekapital GmbH is attached as Exhibit 10.1(bf) to the Company's Form 10-K filed on March 24, 2009, and is incorporated herein by reference.

Exhibit No.	Description of Document
10.1(aw)	The Credit Agreement dated as of November 9, 2009 by and between Sauer-Danfoss and Danfoss A/S is attached as Exhibit 10.1 to the Company's Form 10-Q filed on November 9, 2009, and is incorporated herein by reference.
21	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification by the Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification by the Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(b)

The exhibits that are listed under Item 15(a)(3) above are filed or incorporated by reference hereunder.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAUER-DANFOSS INC.

By: _____ /s/ KENNETH D. MCCUSKEY

Kenneth D. McCuskey
*Vice President and Chief Accounting
Officer, Secretary*

Date: March 4, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person signing below also hereby appoints Sven Ruder and Kenneth D. McCuskey, and each of them singly, his or her lawful attorney-in-fact with full power to execute and file any and all amendments to this report together with exhibits thereto and generally to do all such things as such attorney-in-fact may deem appropriate to enable Sauer-Danfoss Inc. to comply with the provisions of the Securities Exchange Act of 1934 and all requirements of the Securities and Exchange Commission.

Signature	Title	Date
/s/ SVEN RUDER		March 4, 2010
Sven Ruder	Director and President and Chief Executive Officer	
/s/ JESPER V. CHRISTENSEN		March 4, 2010
Jesper V. Christensen	Executive Vice President and Chief Financial Officer	
/s/ KENNETH D. MCCUSKEY		March 4, 2010
Kenneth D. McCuskey	Vice President and Chief Accounting Officer, Secretary	
/s/ NIELS B. CHRISTIANSEN		March 4, 2010
Niels B. Christiansen	Director	
/s/ JØRGEN M. CLAUSEN		March 4, 2010
Jørgen M. Clausen	Director	
/s/ KIM FAUSING		March 4, 2010
Kim Fausing	Director	

<hr/> <i>/s/ PER HAVE</i> <hr/>	Director	March 4, 2010
Per Have		
<hr/> <i>/s/ WILLIAM E. HOOVER, JR.</i> <hr/>	Director	March 4, 2010
William E. Hoover, Jr.		
<hr/> <i>/s/ JOHANNES F. KIRCHHOFF</i> <hr/>	Director	March 4, 2010
Johannes F. Kirchhoff		
<hr/> <i>/s/ JOSEPH LOUGHREY</i> <hr/>	Director	March 4, 2010
Joseph Loughrey		
<hr/> <i>/s/ SVEN MURMANN</i> <hr/>	Director	March 4, 2010
Sven Murmann		
<hr/> <i>/s/ STEVEN H. WOOD</i> <hr/>	Director	March 4, 2010
Steven H. Wood		

Sauer-Danfoss Inc. and Subsidiaries
Consolidated Statements of Operations
(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2009	2008	2007
Net sales	\$ 1,159,031	\$ 2,090,513	\$ 1,972,548
Cost of sales	1,031,078	1,654,903	1,544,846
Gross profit	127,953	435,610	427,702
Selling, general and administrative	209,713	258,491	233,809
Research and development	61,418	82,915	70,552
Impairment charges	50,841	58,208	—
Loss on sale of businesses and asset disposals	16,351	9,604	9,412
Total operating expenses	338,323	409,218	313,773
Operating income (loss)	(210,370)	26,392	113,929
Nonoperating Income (Expenses):			
Interest expense	(50,171)	(25,654)	(23,789)
Interest income	1,775	1,026	1,048
Loss on early retirement of debt	(15,838)	—	—
Other, net	3,369	966	(3,589)
Nonoperating expenses, net	(60,865)	(23,662)	(26,330)
Income (loss) before income taxes	(271,235)	2,730	87,599
Income tax	(61,019)	(14,060)	(18,839)
Net income (loss)	(332,254)	(11,330)	68,760
Net income attributable to noncontrolling interest, net of tax	(13,512)	(17,811)	(21,562)
Net Income (Loss) attributable to Sauer-Danfoss Inc.	\$ (345,766)	\$ (29,141)	\$ 47,198
Net Income (Loss) per common share, basic	\$ (7.15)	\$ (0.60)	\$ 0.98
Net Income (Loss) per common share, diluted	\$ (7.15)	\$ (0.60)	\$ 0.98
Weighted average basic shares outstanding	48,337,923	48,226,184	48,094,375
Weighted average diluted shares outstanding	48,337,923	48,226,184	48,326,637

See accompanying notes to consolidated financial statements.

Sauer-Danfoss Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except per share data)

	December 31,	
	2009	2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 38,790	\$ 23,145
Accounts receivable (net of allowances of \$5,640 and \$5,210 in 2009 and 2008, respectively)	155,968	239,881
Inventories	177,574	325,496
Other current assets	65,553	51,946
Total current assets	437,885	640,468
Property, Plant and Equipment, net	513,487	598,435
Other Assets:		
Goodwill	35,903	86,146
Other intangible assets, net	19,584	23,971
Deferred income taxes	54,458	106,984
Other	7,000	11,672
Total other assets	116,945	228,773
	\$ 1,068,317	\$ 1,467,676
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable and bank overdrafts	\$ 54,069	\$ 65,512
Long-term debt due within one year	142,007	58,005
Accounts payable	101,719	149,512
Accrued salaries and wages	58,169	79,322
Accrued warranty	28,820	25,491
Other accrued liabilities	30,806	42,075
Total current liabilities	415,590	419,917
Long-Term Debt	337,089	367,922
Other Liabilities		
Long-term pension liability	72,400	90,966
Postretirement benefits other than pensions	41,047	37,971
Deferred income taxes	33,708	44,243
Other	13,889	28,756
Total other liabilities	161,044	201,936
Total liabilities	913,723	989,775
Stockholders' Equity:		
Preferred stock, par value \$.01 per share, authorized 4,500,000 shares, no shares issued or outstanding	—	—
Common stock, par value \$.01 per share, authorized shares 75,000,000 in 2009 and 2008; issued and outstanding 48,384,205 in 2009 and 48,271,806 in 2008	484	483
Additional paid-in capital	334,873	334,847
Retained earnings (accumulated deficit)	(298,845)	46,921
Accumulated other comprehensive income	55,422	27,995
Total Sauer-Danfoss Inc. stockholders' equity	91,934	410,246
Noncontrolling interest	62,660	67,655
Total stockholders' equity	154,594	477,901

<u>\$</u>	<u>1,068,317</u>	<u>\$</u>	<u>1,467,676</u>
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See accompanying notes to consolidated financial statements.

Sauer-Danfoss Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

(Dollars in thousands, except per share data)

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Year Ended December 31, 2007:							
Beginning Balance	47,746,279	\$ 477	\$ 336,962	\$ 98,277	\$ 26,343	\$ 53,448	\$ 515,507
Comprehensive income:							
Net income	—	—	—	47,198	—	21,562	—
Pension and postretirement adjustment	—	—	—	—	12,462	—	—
Unrealized gains on hedging activities	—	—	—	—	2,144	—	—
Currency translation	—	—	—	—	40,736	1,423	—
Total comprehensive income	—	—	—	—	—	—	125,525
Performance units vested	379,682	4	(4)	—	—	—	—
Restricted stock grant	23,500	—	—	—	—	—	—
Restricted stock and performance unit compensation	—	—	4,390	—	—	—	4,390
Tax benefits on performance unit compensation	—	—	145	—	—	—	145
Minimum tax withholding settlement	—	—	(8,971)	—	—	—	(8,971)
Noncontrolling interest distribution	—	—	—	—	—	(15,889)	(15,889)
Cash dividends declared (\$7.2 per share)	—	—	—	(34,663)	—	—	(34,663)
Balance December 31, 2007	48,149,461	481	332,522	110,812	81,685	60,544	586,044
Year Ended December 31, 2008:							
Net income (loss)	—	—	—	(29,141)	—	17,811	—
Pension and postretirement adjustment	—	—	—	—	(22,440)	—	—
Unrealized losses on hedging activities	—	—	—	—	(6,861)	—	—
Currency translation	—	—	—	—	(24,389)	3,181	—
Total comprehensive loss	—	—	—	—	—	—	(61,839)
Performance units vested	110,837	2	(2)	—	—	—	—
Restricted stock grant	15,000	—	—	—	—	—	—
Restricted stock and performance unit compensation	—	—	(2,070)	—	—	—	(2,070)
Tax benefits on performance unit compensation	—	—	1,534	—	—	—	1,534
Minimum tax withholding settlement	(3,492)	—	(1,590)	—	—	—	(1,590)
Reversal of tax valuation allowance	—	—	4,453	—	—	—	4,453
Noncontrolling interest distribution	—	—	—	—	—	(13,881)	(13,881)
Cash dividends declared (\$7.2 per share)	—	—	—	(34,750)	—	—	(34,750)
Balance December 31, 2008	48,271,806	483	334,847	46,921	27,995	67,655	477,901
Year Ended December 31, 2009:							
Net income (loss)	—	—	—	(345,766)	—	13,512	—
Pension and postretirement adjustment	—	—	—	—	6,386	—	—
Unrealized gains on hedging activities	—	—	—	—	4,357	—	—
Currency translation	—	—	—	—	16,684	712	—
Total comprehensive loss	—	—	—	—	—	—	(304,115)
Performance units vested	101,899	1	(1)	—	—	—	—
Restricted stock grant, net of forfeitures	10,500	—	—	—	—	—	—
Restricted stock compensation	—	—	253	—	—	—	253
Minimum tax withholding settlement	—	—	(226)	—	—	—	(226)
Noncontrolling interest distribution	—	—	—	—	—	(19,219)	(19,219)
Balance December 31, 2009	48,384,205	\$ 484	\$ 334,873	\$ (298,845)	\$ 55,422	\$ 62,660	\$ 154,594

See accompanying notes to consolidated financial statements

Sauer-Danfoss Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)

	For the Years Ended December 31,		
	2009	2008	2007
Cash Flows from Operating Activities:			
Net income (loss) attributable to Sauer-Danfoss Inc.	\$ (345,766)	\$ (29,141)	\$ 47,198
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	117,130	112,962	102,303
Noncontrolling interest	13,512	17,811	21,562
Restricted stock and performance unit compensation	253	(2,070)	4,390
Impairment charges	50,841	58,208	—
Loss on sale of businesses and asset disposals	16,351	9,604	9,412
Loss on early retirement of debt	15,838	—	—
Change in net pension and post-retirement benefits	(2,794)	(5,585)	(2,869)
Change in deferred income taxes	51,894	(25,937)	(1,983)
Minimum tax withholding payments on performance units	(226)	(1,590)	(8,971)
Change in operating assets and liabilities			
Accounts receivable, net	91,434	71,679	(38,491)
Inventories	153,386	(16,799)	(36,578)
Prepaid and other current assets	(4,990)	(7,918)	(11,136)
Accounts payable	(54,197)	(14,495)	11,036
Accrued liabilities	(20,680)	23,596	(1,453)
Other	4,858	(6,807)	3,720
Net cash provided by operating activities	86,844	183,518	98,140
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(42,972)	(198,634)	(135,633)
Proceeds from sale of property, plant and equipment	4,507	11,141	6,496
Proceeds from sale of businesses, net of payment for acquisition, net of cash acquired	744	—	6,932
Advances to noncontrolling interest partners	(4,500)	—	—
Net cash used in investing activities	(42,221)	(187,493)	(122,205)
Cash Flows from Financing Activities:			
Net borrowings (repayments) on notes payable and bank overdrafts	(15,685)	3,493	6,114
Net borrowings (repayments) on revolving credit facility	(58,705)	17,019	77,264
Repayments of long-term debt	(540,500)	(22,948)	(18,817)
Borrowings of long-term debt	637,232	54,235	6,875
Payments for debt financing costs	(10,575)	—	—
Payments of prepayment penalties	(8,064)	—	—
Settlement of interest rate swaps	(2,000)	—	—
Cash dividends	(8,689)	(34,728)	(33,636)
Distribution to noncontrolling interest partners	(17,694)	(13,881)	(15,889)
Other	—	1,534	145
Net cash provided by (used in) financing activities	(24,680)	4,724	22,056
Effect of Exchange Rate Changes on Cash	(4,298)	(4,393)	(314)
Cash and Cash Equivalents:			
Net increase (decrease) during the year	15,645	(3,644)	(2,323)
Beginning balance	23,145	26,789	29,112
Ending balance	\$ 38,790	\$ 23,145	\$ 26,789
Supplemental Cash Flow Disclosures:			
Interest paid	\$ 43,345	\$ 22,876	\$ 20,248
Income taxes paid	\$ 2,741	\$ 34,351	\$ 26,933

See accompanying notes to consolidated financial statements.

Sauer-Danfoss Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2009, 2008, and 2007
(Dollars in thousands, except per share data)

(1) Summary of Significant Accounting Policies:

Basis of Presentation and Principles of Consolidation—

Sauer-Danfoss Inc., a U.S. Delaware corporation, and subsidiaries (the Company) is a worldwide leader in the design, manufacture, and sale of engineered hydraulic and electronic systems and components that generate, transmit and control power in mobile equipment. The Company's products are used by original equipment manufacturers of mobile equipment, including construction, road building, agricultural, turf care, material handling, and specialty vehicle equipment. The Company's products are sold throughout the world either directly or through distributors.

The consolidated financial statements represent the consolidation of all companies in which the Company has a controlling interest and are stated in accordance with accounting principles generally accepted in the U.S. All significant intercompany balances, transactions, and profits have been eliminated in the consolidated financial statements.

Use of Estimates—

In preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles, management must make decisions that impact the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures, including disclosures of contingent assets and liabilities. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. Estimates are used in determining, among other items, incentive accruals, inventory valuation, warranty reserves, allowance for doubtful accounts, pension and postretirement accruals, useful lives for intangible assets, and future cash flows associated with impairment testing for goodwill and other long-lived assets. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment, adjusting such estimates and assumptions when facts and circumstances dictate. A number of these factors include, among others, the recessionary economic conditions, tight credit markets, foreign currency, higher commodity costs, and a decline in consumer spending and confidence, all of which have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual amounts could differ significantly from those estimated at the time the consolidated financial statements are prepared. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Revenue Recognition—

Net sales are recorded when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. Estimates for future warranty expense are recorded when the related revenue is recognized. Timing of revenue recognition is consistent with when the risks and rewards of ownership and title to the product have transferred to the customer.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(1) Summary of Significant Accounting Policies: (Continued)

Cash and Cash Equivalents—

Cash equivalents are considered by the Company to be all highly liquid instruments purchased with original maturities of three months or less. At December 31, 2009 cash and cash equivalents balances in China totaled approximately \$21,900. The Company is paying dividends from its Chinese entities to the maximum extent possible under current regulations; however, due to the nature of the governmental and other regulatory controls it is difficult to transfer cash out of this country for reasons other than payment for goods shipped into the country.

Trade Receivables—

The Company records trade receivables due from its customers at the time sales are recorded in accordance with its revenue recognition policy. The future collectability of these amounts can be impacted by the Company's collection efforts, the financial stability of its customers, and the general economic climate in which it operates. The Company applies a consistent practice of establishing an allowance for accounts that it believes may become uncollectible through reviewing the historical write-offs of accounts, aging of its receivables, and by monitoring the economic environment and financial strength of its customers. If the Company becomes aware of a customer's inability to meet its financial obligations (e.g., where it has filed for bankruptcy), the Company establishes a specific allowance for the potential bad debt to reduce the net recognized receivable to the amount it reasonably believes will be collected. The analysis of the valuation of trade receivables is performed quarterly.

Inventories—

Inventories are valued at the lower of cost or market, using various cost methods, and include the cost of material, labor, and factory overhead. The last-in, first-out (LIFO) method was adopted in 1987 and is used to value inventories at the U.S. locations which existed at that time. Inventories at all of the non-U.S. locations and the U.S. locations obtained through acquisition after 1987, which produce products different than those produced at U.S. locations existing at 1987, are valued under the first-in, first-out (FIFO) inventory valuation method. The percentage of year-end inventory valued under the LIFO and FIFO cost methods was 9% and 91%, respectively, for 2009, and 11% and 89%, respectively, for 2008.

Property, Plant and Equipment and Depreciation—

Property, plant and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is generally computed using the straight-line method for building equipment and buildings over 10 to 37 years and for machinery and equipment over 3 to 8 years (3 to 12 years for additions in 1999 and prior). Additions and improvements that substantially extend the useful life of a particular asset are capitalized. Repair and maintenance costs (\$21,732, \$45,818, and \$45,580 in 2009, 2008, and 2007, respectively) are charged to expense. When property, plant and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statements of operations.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(1) Summary of Significant Accounting Policies: (Continued)

Goodwill and Other Intangible Assets—

Goodwill represents the excess of the purchase price over the estimated fair values of net assets acquired in the purchase of businesses. Goodwill is not amortized, but tested for impairment at least annually or when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company recorded a goodwill impairment charge of \$50,841 and \$22,900 in 2009 and 2008, respectively. See Note 6 for further discussion.

Intangible assets consist primarily of trade names, technology, and customer relationships and are recorded at fair value at the time of acquisition. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from three to thirty five years.

Impairment of Long-Lived Assets and Assets to be Disposed Of—

The Company periodically assesses whether events or circumstances have occurred that may indicate the carrying value of its long-lived tangible and intangible assets may not be recoverable. The carrying value of long-lived tangible and intangible assets to be held and used is evaluated for recoverability based on the expected future undiscounted operating cash flows. When the evaluation indicates the carrying value of an asset or group of assets is impaired, the Company determines the fair value of assets, using discounted cash flows or determining the liquidation value of the long-lived assets, and recognizes an impairment loss to the extent that the carrying value of the assets exceeds the fair value of the assets. In 2008 the Company recognized an impairment charge for long-lived assets of \$35,300 in the Work Function segment as discussed in Note 5.

Product Warranty—

The Company warrants its various products over differing periods depending upon the type of product and application. Consequently, the Company records warranty liabilities for the estimated costs that may be incurred under its basic warranty based on past trends of actual warranty claims compared to the actual sales levels to which those claims apply. These liabilities are accrued at the time the sales of the products are recorded. Factors that affect the Company's warranty liability include the number of units in the field currently under warranty, historical and anticipated rates of warranty claims on those units and the cost per claim to satisfy the Company's warranty obligation. The anticipated rate of warranty claims is the primary factor impacting the Company's estimated warranty obligation.

In addition to its normal warranty liability, the Company, from time to time in the normal course of business, incurs costs to repair or replace defective products with a specific customer or group of customers. The Company refers to these as field recalls and in these instances, the Company records a specific provision for the expected costs it will incur to repair or replace these products utilizing information from customers and internal information regarding the specific cost of materials and labor. Due to the sporadic and infrequent nature of field recalls, and the potential for a range of costs associated with field recalls, the Company cannot accurately estimate these costs at the time the products are sold. Therefore, these costs are recorded at the time information becomes known to the Company. As the field recalls are carried out, the Company relieves the specific liability related to that field recall. These specific field recall liabilities are reviewed on a quarterly basis. In December 2009 the Company became aware of a

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(1) Summary of Significant Accounting Policies: (Continued)

new field recall for which the number of units and cost per unit to repair are still uncertain as no loss estimate within this range is more likely than another. The Company had determined that the range of probable loss for this field recall is from \$8,000 to \$26,000. The Company has accrued \$8,000 for this field recall as of December 31, 2009.

The following table represents the change in the Company's accrued warranty and field recall liability:

	December 31,		
	2009	2008	2007
Balance, beginning of period	\$ 25,491	\$ 19,401	\$ 17,022
Payments	(18,474)	(22,856)	(17,664)
Provisions for warranties and field recalls	21,456	28,996	19,167
Currency impact	347	(50)	876
Balance, end of period	\$ 28,820	\$ 25,491	\$ 19,401

Income Taxes—

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the Company's assets and liabilities, net operating loss carryforwards, and tax credit carryforwards and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when the Company is unable to conclude that realization of the deferred tax assets is more likely than not.

Income (Loss) Per Share—

Basic net income (loss) per common share is based on the weighted average number of common shares outstanding in each year. Diluted net income per common share assumes that outstanding common shares were increased by shares issuable upon (i) exercise of restricted stock shares, and (ii) granting of shares under the long-term incentive plan, after it becomes certain that the performance requirements needed to be met in accordance with the incentive plan will be achieved. Shares under both the restricted stock plan and the long term incentive plan have an exercise price of zero. Diluted net loss per share for

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Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(1) Summary of Significant Accounting Policies: (Continued)

2009 and 2008 excludes the dilutive effect of restricted stock and performance units as these shares are anti-dilutive.

	Net Income (Loss)	Shares	Earnings (Loss) Per Share
December 31, 2009			
Basic net loss	\$ (345,766)	48,337,923	\$ (7.15)
Effect of dilutive securities:			
Restricted stock	—	—	—
Performance units	—	—	—
Diluted net loss	<u>\$ (345,766)</u>	<u>48,337,923</u>	<u>\$ (7.15)</u>
December 31, 2008			
Basic net loss	\$ (29,141)	48,226,184	\$ (0.60)
Effect of dilutive securities:			
Restricted stock	—	—	—
Performance units	—	—	—
Diluted net loss	<u>\$ (29,141)</u>	<u>48,226,184</u>	<u>\$ (0.60)</u>
December 31, 2007			
Basic net income	\$ 47,198	48,094,375	\$ 0.98
Effect of dilutive securities:			
Restricted stock	—	24,696	—
Performance units	—	207,566	—
Diluted net income	<u>\$ 47,198</u>	<u>48,326,637</u>	<u>\$ 0.98</u>

Fair Value of Financial Instruments—

The carrying values of cash and cash equivalents, accounts and other receivables, notes payable and bank overdrafts, and accounts payable approximate fair value because of the short-term nature of these instruments.

The fair value of long-term debt is calculated by discounting scheduled cash flows through maturity using estimated market discount rates. The discount rate is estimated using the rates currently offered for long-term debt of similar remaining maturities and credit characteristics. At December 31, 2009 the Company estimated the fair value of its long-term debt, including amounts due within one year, to be the same as its carrying value of \$479,096. At December 31, 2008 the Company estimated the fair value of its long-term debt, including amounts due within one year, at \$425,273 compared to its carrying value of \$425,927. These estimates are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The fair value of derivative instruments is discussed in Note 7.

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Notes to Consolidated Financial Statements (Continued)

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(1) Summary of Significant Accounting Policies: (Continued)

Translation of Non-U.S. Currencies—

Assets and liabilities of consolidated non-U.S. subsidiaries are translated into U.S. dollars at exchange rates in effect at the end of each period, while revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation adjustments are included in stockholders' equity. Gains or losses on transactions denominated in non-functional currencies and the related tax effects are reflected in the consolidated statements of operations.

Derivatives and Hedging—

It is the Company's policy that derivative transactions are executed only to manage exposures arising in the normal course of business and not for the purpose of creating speculative positions or trading. All derivatives are recorded at fair value on the balance sheet as current or long-term other assets or other liabilities depending on whether the maturity date of the derivative contract is within one year from the balance sheet date.

Until March 2009, the Company used interest rate swaps to establish fixed interest rates on outstanding borrowings. There was no ineffectiveness of the interest rate swaps and therefore, the changes in fair value of the derivatives was recorded in accumulated other comprehensive income (loss). The Company utilizes forward contracts to minimize the impact of currency fluctuations on cash flows related to forecasted sales denominated in currencies other than the functional currency of the selling location. The forward contracts qualify for hedge accounting and therefore are subject to effectiveness testing at the inception of the contract and throughout the life of the contract.

When, and if, a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, the hedge accounting is discontinued and any past or future changes in the derivative's fair value that will not be effective as an offset to the income effects of the item being hedged are recognized currently in the statement of operations. Any changes in fair values of derivatives not qualifying as hedges would be reported immediately in other income (expense) on the consolidated statement of operations; however, the Company did not have any derivatives that did not qualify as hedges in 2009 or 2008, other than disclosed in Note 7.

Employee Stock-Based Compensation—

The fair value method is used to account for employee-stock compensation.

New Accounting Principles—

In June 2009 the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." The FASB Accounting Standards Codification is intended to be the source of authoritative U.S. generally accepted accounting principles (GAAP) and reporting standards recognized by the FASB. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics.

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Notes to Consolidated Financial Statements (Continued)

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(1) Summary of Significant Accounting Policies: (Continued)

The Codification does not change or alter existing GAAP and there was no impact on the Company's consolidated financial position or results of operations when it was adopted in the third quarter of 2009.

FASB ASC 805 establishes requirements for recognition and measurement of identifiable assets acquired, liabilities assumed, noncontrolling interest of the acquiree, goodwill acquired, and gain from bargain purchase. The guidance within FASB ASC 805 was issued in December 2007 and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after December 15, 2008. The Company adopted this guidance as of January 1, 2009 with no impact on the consolidated financial statements.

The FASB issued new guidance contained within ASC 810-10, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" in December 2007. The new guidance was issued to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. The Company adopted this guidance in the first quarter of 2009. Upon adoption, certain prior period amounts have been reclassified to conform to the current period financial statement presentation. These reclassifications have no impact on the previously reported financial position or results of operations.

In March 2008 the FASB issued guidance contained within ASC 815-10, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133." The guidance amends and expands disclosure requirements for derivative instruments in order to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company adopted this guidance in the first quarter of 2009 and has included the expanded disclosures in Note 7.

The FASB issued new guidance contained within ASC 260-10, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" in June 2008. The guidance provides guidance on the calculation of earnings per share and indicates that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities and therefore the two-class method should be applied in calculating basic and diluted earnings per share. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted this guidance in first quarter 2009 with no impact on the consolidated financial statements.

In May 2009 the FASB issued guidance contained within ASC 855-10, "Subsequent Events." This Statement incorporates guidance into accounting literature that was previously addressed only in auditing standards. The statement refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as "recognized subsequent events." Subsequent events which provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements are referred to as "non-recognized subsequent events." It also requires companies to disclose the date through which subsequent events have been evaluated and whether this date is the date the financial statements were issued or the date the financial statements were available to be issued. The

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Notes to Consolidated Financial Statements (Continued)

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(1) Summary of Significant Accounting Policies: (Continued)

Company adopted this guidance in the second quarter of 2009 with appropriate disclosures added in Note 18.

(2) Sale of Businesses and Termination of Joint Venture:

In 2009 the Company sold the assets of its steering column business which was located in Kolding, Denmark, recognizing a loss on sale of approximately \$2,700 in the Work Function segment. The loss was related to the write-down of inventory and machinery to the proceeds of the sale, which approximated fair value. Also included in the loss amount was severance costs for employees at the Kolding location because the buyer moved production operations to a different location. The Company acquired the steering column business in May 2007 in a stock transaction. The purchase price was allocated to inventory and property, plant, and equipment. Goodwill of approximately \$2,800 represented the excess of cost over the fair value of net tangible assets. The goodwill was impaired in 2008 in connection with the impairment of the steering reporting unit. The Company had consolidated the financial results since the date of acquisition through the date of disposition.

In December 2008 the Company signed a sales agreement to sell its alternating current (AC) motor business related to the material handling market. The closing of the transaction occurred in 2009 when the transfer of the machinery and inventory covered by the purchase agreement was completed. A loss of approximately \$6,300 and \$8,400 in 2009 and 2008, respectively, is reported in the Controls segment. In 2008 the machinery and inventory were written down to the proceeds expected to be received upon transfer of the assets. The expense in 2009 relates to the write-off of a customer relationship intangible asset, employee retention costs, and additional write-downs to machinery and inventory balances due to revisions of the sales agreement during 2009. The Company will receive a commission payment from the purchaser through 2012; the amount will be based on the level of electric motors sales made by the purchaser.

In April 2007 the Company sold its direct current (DC) motor business. The sale resulted in a loss of approximately \$6,600, including transaction costs. The loss is reported in the Controls segment.

The Company sold the assets and product lines located in the Swindon, England location in June 2007. The Company recognized a net loss on the sale of approximately \$2,400, including transaction costs, reported in the Work Function segment. The Company had anticipated ending production at this location by the end of 2006 and had established an accrual with the expectation that termination payments would be made to employees at the time production ended. A severance accrual of approximately \$1,900, established during 2006, was reversed at the time of sale. The reversal of the accrual was reflected as an offset to the loss on sale of business calculation.

In July 2009 the Company and Topcon Positioning Systems, Inc. (Topcon), the noncontrolling interest partner, agreed to terminate the joint venture they have operated since April 2001 through TSD Integrated Controls, LLC (TSD). The termination was effective September 1, 2009 but is subject to a three-year wind down period as contemplated in the 2001 Joint Venture Agreement. During the wind-down period, the Company and Topcon will each receive distributions of certain assets of TSD and royalties on sales of TSD products. The effects of this wind-down will not have a material impact on the Company's operations.

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Notes to Consolidated Financial Statements (Continued)

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(3) Restructuring Charges:

In September 2009 the Company announced its plans to close the Lawrence, Kansas plant, and transfer the majority of the production lines to the Ames, Iowa and Freeport, Illinois locations to reduce costs and increase efficiencies. Costs related to the Lawrence plant closing are included in the Work Function segment. This project is expected to be completed in the first half of 2010.

In December 2008 the Company decided to close the Hillsboro, Oregon plant and transfer the production lines to the Easley, South Carolina location. In 2007, in preparation for disposing of the direct current (DC) electric motor business the Company incurred restructuring costs to transfer all DC production lines to one location and all alternating current (AC) production lines to another location. The costs related to the closure of Hillsboro, the transfer of electric motors production lines, and costs related to the relocation of certain production lines between facilities are included in the Controls segment. The relocation of production activities from Hillsboro was completed in 2009. The other projects were completed in 2008. The Company sold its AC electric motor business related to the material handling market in June 2009 and its DC electric motor business in April 2007. The losses related to the sale of businesses of approximately \$6,300, \$8,400 and \$6,600, in 2009, 2008 and 2007, respectively, are not included in the restructuring numbers below.

The Company announced its plans to close its LaSalle, Illinois plant, outsourcing certain products to reduce costs and increase efficiencies in March 2006. Costs related to the LaSalle plant closing, in addition to costs related to the relocation of certain production lines between production facilities in the U.S are included in the Propel segment. These projects were completed in 2007.

In 2006 the Company announced plans to discontinue production of certain product lines manufactured in Swindon, England and incurred restructuring costs in anticipation of this shutdown. In June 2007, the assets related to this production facility were sold and accruals which were no longer needed were reversed. This activity is included in the Work Function segment. The approximately \$2,400 of costs incurred in 2007 related to the sale of the production assets are not included in the restructuring numbers below.

The following table summarizes the restructuring charges incurred, as well as the cumulative charges incurred to date on these projects.

	Propel	Work Function	Controls	Total
Charges incurred in 2009	\$ —	\$ 3,699	\$ 8,704	\$ 12,403
Charges incurred in 2008	—	—	1,007	1,007
Charges incurred in 2007	5,477	—	4,874	10,351
Cumulative charges incurred	13,767	3,699	14,585	32,051
Cumulative charges expected to be incurred	13,767	8,100	14,585	36,452

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Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(3) Restructuring Charges: (Continued)

The restructuring costs incurred are reported in the statement of operations as detailed in the following table:

	Cost of Sales	Selling, General and Administrative Expenses	Loss on Disposal of Fixed Assets	Total
Charges incurred in 2009	\$ 5,813	\$ 4,500	\$ 2,090	\$ 12,403
Charges incurred in 2008	40	585	382	1,007
Charges incurred in 2007	9,662	669	20	10,351
Cumulative charges incurred	23,805	5,754	2,492	32,051
Cumulative charges expected to be incurred	25,706	8,254	2,492	36,452

The following table summarizes the restructuring charges incurred and the activity in accrued liabilities during 2009, 2008 and 2007.

	Employee Termination Costs	Building and Lease Cancellation Costs	Accelerated Depreciation and Loss on Asset Disposals	Equipment Moving Costs	Other	Total
Balance as of January 1, 2007	\$ 3,115	\$ —	\$ —	\$ —	\$ —	\$ 3,115
Charges to expense	600	—	20	3,993	5,738	10,351
Reversal of accrual due to sale of business	(1,915)	—	—	—	—	(1,915)
Payments made	(1,425)	—	(20)	(3,993)	(5,738)	(11,176)
Balance as of December 31, 2007	375	—	—	—	—	375
Charges to expense	625	—	382	—	—	1,007
Payments made	(375)	—	(382)	—	—	(757)
Balance as of December 31, 2008	625	—	—	—	—	625
Charges to expense	2,275	2,162	4,569	829	2,568	12,403
Payments made	(2,049)	(1,607)	(4,569)	(829)	(2,568)	(11,622)
Balance as of December 31, 2009(1)	\$ 851	\$ 555	\$ —	\$ —	\$ —	\$ 1,406

(1)

The remaining \$851 of accrued employee termination costs will be paid in 2010. The \$555 of accrued lease costs relate to future lease payments that will be paid through December 2010.

The employee termination costs in the table above relate to the restructuring projects described in this footnote. The table excludes approximately \$32,600 and \$15,500 of employee termination costs in 2009 and 2008, respectively, related to headcount reductions that were the result of reduced sales volumes related to

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Notes to Consolidated Financial Statements (Continued)

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(3) Restructuring Charges: (Continued)

the worldwide economic downturn. The liability in the balance sheet related to these employee termination costs was approximately \$12,000 and \$10,200 at December 31, 2009 and 2008, respectively.

(4) Inventories:

The composition of inventories is as follows:

	December 31,	
	2009	2008
Raw materials	\$ 89,063	\$ 153,570
Work in progress	44,176	64,329
Finished goods and parts	64,263	131,758
LIFO allowance	(19,928)	(24,161)
Total	\$ 177,574	\$ 325,496

The Company recorded LIFO decrements of approximately \$25,900 and \$8,800 in 2009 and 2008, respectively.

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Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(5) Property, Plant and Equipment and Property Held for Disposal:

The cost and related accumulated depreciation of property, plant and equipment are summarized as follows:

	December 31,	
	2009	2008
Cost—		
Land and improvements	\$ 16,785	\$ 16,624
Buildings and improvements	156,008	152,929
Machinery and equipment	1,022,728	1,021,851
Construction in progress	46,418	103,545
Plant and equipment under capital leases	4,700	17,998
Total costs	1,246,639	1,312,947
Less—accumulated depreciation	(733,152)	(714,512)
Net property, plant and equipment	\$ 513,487	\$ 598,435

Depreciation expense for 2009, 2008, and 2007 was \$115,252, \$110,934, and \$100,074, respectively.

In 2008 the Company determined that an impairment test of property, plant, and equipment was necessary due to the change in worldwide economic conditions and resulting decrease in Company sales. The Company determined that an impairment charge of \$35,300 was required to write down the carrying value of the motors asset group within the Work Function segment. The assets were written down to fair value as measured by the liquidation value of the assets.

The Company exercised the buy-out option in the capital lease for the building in Odense, Denmark in 2009. This location was previously used for the design and manufacture of electric drives until the business was exited in the second quarter of 2009 as discussed in Note 3. The Company intends to sell the building, which has a carrying value of approximately \$9,600. The building is classified in other current assets in the Controls segment.

In 2007 the Company decided that the land and building at the LaSalle, Illinois location would be sold. This property was classified in other current assets with a carrying value of approximately \$1,800 in the Propel segment on the consolidated balance sheet at December 31, 2007. In 2008 the property was sold for a gain of approximately \$1,400. The gain was reported in the Propel segment.

In 2003 the Company closed a manufacturing facility in West Branch, Iowa and determined the land and building would be sold. In 2007 the location was sold for approximately \$3,300. The loss on sale of land and building of approximately \$300 is reported in the Work Function segment.

(6) Goodwill and Intangible Assets:

Goodwill is required to be tested for impairment annually and if an event or conditions change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As a result of deteriorating economic conditions the Company completed a goodwill impairment test as of March 31, 2009, in addition to its annual impairment test as of December 31, 2009.

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Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(6) Goodwill and Intangible Assets: (Continued)

The Company has identified seven reporting units that are either operating segments or one level below operating segments. As an overall reasonableness test in its step one analysis the Company reconciled the sum of the estimated fair values of its reporting units to the Company's market value (based on its stock price at the measurement date), plus a reasonable control premium, which is estimated as that amount which would be received to sell a majority share of the Company in an orderly transaction between market participants versus the market value of the minority shares as evidenced by the stock price.

When testing for goodwill impairment, the Company performs a first step of the goodwill impairment test to identify a potential impairment. In doing so, the Company compares the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, goodwill may be impaired and a second step of the goodwill impairment test is performed to measure the amount of any impairment loss. Estimates about fair value used in the first step of the goodwill impairment tests have been calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach has been supported by other valuation approaches, such as similar transaction and guideline analyses. Under the income approach, the Company determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions among others. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

In the second step of the goodwill impairment test, the Company compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

The Company considered the decrease in its market value in the first quarter of 2009 to be a triggering event that required goodwill to be tested for impairment at March 31, 2009. As a result of that testing the Company determined that the implied fair value of goodwill for the valves reporting unit was less than its carrying value by \$50,841, which was recorded as a goodwill impairment charge. At December 31, 2009 the Company has \$35,903 of goodwill related to its propel and mobile electronics reporting units which was tested for impairment, as required annually. The fair value of the propel and mobile electronics reporting units substantially exceeded the goodwill amounts, resulting in no impairment.

In 2008 the Company determined that the implied fair value of goodwill for the motors, steering, and electric drives reporting units was less than its carrying value by \$22,908, which was recorded as a goodwill impairment charge in 2008.

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Notes to Consolidated Financial Statements (Continued)

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(6) Goodwill and Intangible Assets: (Continued)

The changes in the carrying amounts of goodwill for the years ended December 31, 2008 and 2009 are as follows:

	Propel Segment	Work Function Segment	Controls Segment	Total
Balance at January 1, 2008	\$ 27,910	\$ 18,018	\$ 68,572	\$ 114,500
Purchase price adjustment on 2007 acquisition	—	243	—	243
Reversal of valuation allowance on deferred tax asset	(426)	(219)	(263)	(908)
Impairment	—	(17,361)	(5,547)	(22,908)
Translation adjustment	(833)	(681)	(3,267)	(4,781)
Balance at December 31, 2008	26,651	—	59,495	86,146
Impairment	—	—	(50,841)	(50,841)
Translation adjustment	440	—	158	598
Balance at December 31, 2009	\$ 27,091	\$ —	\$ 8,812	\$ 35,903

The following table summarizes the components of the other intangible asset balances at December 31, 2009 and 2008:

	Trade Name	Technology	Customer Relationships	Other	Total
<i>December 31, 2009</i>					
Cost	\$ 19,000	\$ 10,700	\$ 1,334	\$ 2,137	\$ 33,171
Accumulated amortization	(4,887)	(6,417)	(320)	(1,963)	(13,587)
Other intangible assets, net	\$ 14,113	\$ 4,283	\$ 1,014	\$ 174	\$ 19,584
<i>December 31, 2008</i>					
Cost	\$ 19,000	\$ 11,366	\$ 7,836	\$ 2,291	\$ 40,493
Accumulated amortization	(4,344)	(6,370)	(4,168)	(1,640)	(16,522)
Other intangible assets, net	\$ 14,656	\$ 4,996	\$ 3,668	\$ 651	\$ 23,971

The weighted average useful lives for the intangible assets are 35, 15, and 4 years for trade name, technology, and customer relationships, respectively. Amortization of intangible assets was \$1,878, \$2,028, and \$2,229 in 2009, 2008, and 2007, respectively. Amortization expense is expected to be approximately \$1,400 annually in 2010 through 2013, and \$1,300 in 2014.

(7) Fair Value and Derivative Financial Instruments:

The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include the Company's derivative instruments, related to both foreign currency exchange and interest rates, which are recognized at fair value. All derivative instruments are designated as

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Notes to Consolidated Financial Statements (Continued)

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(7) Fair Value and Derivative Financial Instruments: (Continued)

and qualify for hedge accounting treatment, other than those contracts that no longer qualify as highly effective. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. The fair values of the foreign currency exchange and interest rate contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized these contracts as Level 2 in the fair value hierarchy.

The following table shows the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis:

	Balance Sheet Classification	December 31,	
		2009	2008
Assets:			
Foreign currency exchange contracts	Other current assets	\$ 791	\$ 1,560
Foreign currency exchange contracts	Other assets	—	547
		<u>\$ 791</u>	<u>\$ 2,107</u>
Liabilities:			
Foreign currency exchange contracts	Other accrued liabilities	\$ 322	\$ 5,434
Interest rate swap contracts	Other liabilities	—	1,897
		<u>\$ 322</u>	<u>\$ 7,331</u>

The Company uses derivative financial instruments to manage risk and not for trading or other speculative purposes.

The Company enters into forward contracts to hedge the value of the U.S. dollar or euro cash flow at locations that do not have the U.S. dollar or euro as their functional currency but conduct certain transactions in U.S. dollars or euros. The objective of all outstanding forward contracts is to hedge forecasted transactions in U.S. dollars or euros through the cash settlement date. The Company enters forward contracts that mature from two to eighteen months after the contract date.

The Company had foreign currency forward contracts outstanding in notional amounts as follows:

	December 31,	
	2009	2008
U.S. dollar	19,800	60,550
Euro	—	22,000

Interest rate swaps, designated as cash flow hedges, were used by the Company to establish fixed interest rates on outstanding borrowings. At December 31, 2008 the Company had two interest rate swaps outstanding, with a combined notional amount of \$34,027. The interest rate swaps were settled in 2009 for a loss of \$2,000 in connection with the debt repayment discussed in Note 8.

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(Dollars in thousands, except per share data)

(7) Fair Value and Derivative Financial Instruments: (Continued)

Changes in the fair value of derivative financial instruments are recognized in the statement of operations or in stockholders' equity as a component of other comprehensive income depending on whether the transaction related to the hedged risk has occurred and whether the contract qualifies as highly effective. Changes in fair values of derivatives that are accounted for as cash flow hedges are recorded in other comprehensive income. The amount of gain (loss), net of tax, recorded as a component of accumulated other comprehensive income was:

	December 31,	
	2009	2008
Foreign currency exchange contracts	\$ 208	\$ (2,962)
Interest rate swap contracts	—	(1,187)
	<u>\$ 208</u>	<u>\$ (4,149)</u>

At December 31, 2009 the Company expects to reclassify \$208 of gain, net of tax, on derivative instruments from accumulated other comprehensive income to the income statement during the next twelve months due to the actual fulfillment of forecasted transactions.

The following table summarizes the amount of gain (loss) reclassified from accumulated other comprehensive income into the consolidated statement of operations for 2009 and 2008:

Statement of Operations Classification	December 31,	
	2009	2008
Net Sales	\$ (5,487)	\$ 7,805
Other, net	864	(504)
Interest expense, net	(151)	(278)
	<u>\$ (4,774)</u>	<u>\$ 7,023</u>

The Company formally assesses at a hedge's inception, and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of the hedged items and whether those derivatives are expected to remain highly effective. When it is determined that a derivative has ceased to be highly effective as a hedge the Company discontinues hedge accounting prospectively. When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur by the end of the originally expected period, but it is probable that the transaction will occur within the two months following the forecasted period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified to net earnings when the forecasted transaction affects net earnings. However, if it is probable that a forecasted transaction will not occur within two months after the forecasted period, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in net earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company carries the derivative at its fair value on the consolidated balance sheet, recognizing future changes in the fair value in other income or expense, net. In 2009 the Company had derivative contracts with notional amounts of \$3,300 that no longer qualified for hedge accounting as the

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(7) Fair Value and Derivative Financial Instruments: (Continued)

sales were not expected to occur in the month originally specified. In 2009 income of \$376 was recognized in other, net related to changes in the fair value of derivative contracts that were no longer deemed highly effective, which is included in the \$864 in the table above. The sales related to the derivative contracts no longer deemed highly effective occurred within two months following the originally specified period. All derivative contracts qualified for hedge accounting in 2008.

In addition, any portion of the hedge that is deemed ineffective due to the absolute value of the cumulative change in the derivative being greater than the cumulative change in the hedged item is recorded immediately in other income (expense) on the consolidated statement of operations. Except for the hedge ineffectiveness discussed above, there was no other significant hedge ineffectiveness in 2009. There was no significant hedge ineffectiveness in 2008.

(8) Long-Term Debt:

Long-term debt outstanding at December 31, 2009 and 2008 consisted of the following:

	2009		2008	
	Long-term Debt Due Within One Year	Long-term Debt	Long-term Debt Due Within One Year	Long-term Debt
Danfoss A/S Multicurrency Term Loan and Revolving Credit Facilities	\$ 140,869	\$ 332,370	\$ —	\$ —
Danfoss A/S Loan	—	—	—	50,000
Multicurrency Revolving and Term Loan Facility	—	—	56,461	201,115
Multicurrency Term Loan Facility	—	—	—	83,934
U.S. 2000 Senior Notes	—	—	—	24,000
Other Borrowings	1,138	4,719	1,544	8,873
Total	\$ 142,007	\$ 337,089	\$ 58,005	\$ 367,922

Related Person Loans

In November 2009, the Company entered into a new unsecured term loan and revolving credit facility with Danfoss A/S (the Danfoss Agreement), the Company's majority stockholder, which replaced the Original Credit Agreement discussed below. Under the Danfoss Agreement the Company may borrow up to \$690,000. The principal amount outstanding under the Danfoss Agreement bears interest at a rate equal to the U.S. prime rate or LIBOR, as in effect at times specified in the Danfoss Agreement, plus 10%. The balance of the revolving credit facilities at December 31, 2009 was \$140,869, and the loans had a weighted average interest rate of 10.3%. The Danfoss Agreement also includes term loans of 92,000 euro (approximately \$132,000) and \$200,000, which accrue interest at an annual rate of 11.8% and 11.4%, respectively. The Company was required to pay a closing fee of \$2,000 to Danfoss A/S, which was capitalized and will be amortized to interest expense over the term of the Danfoss Agreement. The Company pays a quarterly commitment fee equal to 4% of the average daily unused portion of the Danfoss Agreement. The Company incurred commitment fee expense of \$1,231 in 2009. The Company's

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Notes to Consolidated Financial Statements (Continued)

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(8) Long-Term Debt: (Continued)

borrowings under the Danfoss Agreement will be due and payable in full on April 29, 2011. Prior to April 29, 2011 the Company will need to either extend its current Credit Agreement with Danfoss A/S or obtain an alternative source of funding from either Danfoss A/S or a third party. The Danfoss Agreement contains no financial covenants but it does contain a number of affirmative and negative covenants that, among other things, require the Company to obtain the consent of Danfoss A/S prior to engaging in certain types of transactions. The Danfoss Agreement contains customary representations and warranties regarding the Company and its business and operations. It also sets forth a number of events of default for, among other things, failure to pay principal or interest, breaches of representations, warranties and covenants and various events relating to the bankruptcy or insolvency of the Company or its subsidiaries.

In March 2009, the Company entered into a Multicurrency Term Loan and Revolving Credit Facilities agreement with Danfoss A/S (the Original Credit Agreement), which was scheduled to mature on September 30, 2010, but was terminated in November, 2009 and replaced by the Danfoss Agreement discussed above. Under the Original Credit Agreement the Company was able to borrow up to \$490,000. Borrowings under the Original Credit Agreement bore interest at LIBOR, CIBOR or EURIBOR, plus a margin of 8.0%. The Original Credit Agreement also included term loans of 92,000 euro and \$180,000, which accrued interest at an annual rate of 9.8% and 9.4%, respectively. Debt issuance costs of approximately \$8,600 were capitalized but subsequently taken to interest expense when the Original Credit Agreement was replaced by the Danfoss Agreement. The Company was also required to pay a commitment fee of 4.0% on the unused portion of the Original Credit Agreement. In 2009 the Company recognized commitment fee expense of \$2,311. Proceeds from these borrowings were used to pay off the Multicurrency Revolving and Term Loan Facilities and the U.S. 2000 Senior Notes.

In December 2008, the Company borrowed \$50,000 from Danfoss A/S (the Danfoss A/S Loan). The unsecured term loan had a maturity date of December 9, 2011 and bore interest at an annual rate of 4.02%. The Company paid a facility fee of 10 basis points. The Danfoss A/S Loan was terminated in November, 2009 with its balance rolled into the Danfoss Agreement, as described above.

Approximately \$5,100 of unamortized debt issuance costs related to both the Original Credit Agreement and the Danfoss A/S Loan were expensed in 2009 as a result of the Danfoss Agreement.

Multicurrency Facilities

In December 2005, the Company entered into a Multicurrency Revolving Facility Agreement which was modified in July 2006 (the Agreement). Borrowings under the Agreement bore interest at a rate based on either the relevant interbank offering rate plus a margin, Federal Funds plus 0.5%, or the prevailing Prime Rate. The margin on the interbank offering rate option ranged from 0.5% to 1.125%, depending upon the Company's ratio of net debt to EBITDA, as defined. Outstanding borrowings under the Agreement were repaid during March 2009. The Company wrote off \$600 of unamortized debt issuance costs related to the loans.

In December 2005, the Company entered a term loan facility, under which it borrowed \$30,000 in U.S. dollars at a fixed interest rate of 5.74% and 38,450 euro (approximately \$53,900 using the December 31, 2008 exchange rate) at a fixed interest rate of 4.05% over the ten-year term of the loan. The U.S. dollar portion of the loan was repaid in March 2009 along with a prepayment penalty of approximately \$4,400.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(8) Long-Term Debt: (Continued)

The euro portion of the loan was repaid in April 2009 along with a prepayment penalty of approximately \$3,300.

U.S Borrowings

In October 2000, the Company issued \$35,000 of 8.07% Senior Notes with scheduled annual payments starting on September 30, 2008, through September 30, 2010. The Notes were repaid during March 2009. The Company paid a prepayment penalty of approximately \$400 and in addition, wrote off \$50 of unamortized debt issuance costs related to the loans.

Other Borrowings

The Company borrows locally when favorable terms are available. In May 2007, the Company borrowed \$150 from the Ames, Iowa Economic Development Commission. The loan bears interest at an annual rate of 4.13%, and the outstanding balance on the loan at December 31, 2009 was \$103. In December 2006, the Company borrowed \$750 from the Iowa Department of Economic Development. The loan does not bear interest, and the outstanding balance at December 31, 2009 was \$643. In April, 2005 the Company borrowed 150,000 Indian rupee from The Hong Kong and Shanghai Banking Corporation. The loan bears interest at a variable rate ranging from 8.20% to 9.36%, and had an outstanding balance of 134,488 Indian rupee (approximately \$2,870) at December 31, 2009. In February, 2007 the Company borrowed 150,000 Indian rupee from Deutsche Bank AG. The loan bears interest at an annual rate of 11.75%, and the outstanding balance at December 31, 2009 was 105,000 Indian rupee (approximately \$2,241). A Danish subsidiary maintains a line of credit for purposes of centralizing cash management for the European locations. Sauer-Danfoss Inc. guarantees this line of credit up to 20,000 euro (approximately \$28,000).

Loss on Early Retirement of Debt

A loss on early retirement of debt of \$15,838 was recognized during 2009. The total loss consisted of \$8,064 of prepayment penalties, \$2,000 to settle outstanding interest rate swap agreements related to the debt repaid, and \$5,774 to write-off unamortized deferred financing costs.

Repayment of Borrowings

Payments required to be made on long-term debt outstanding as of December 31, 2009 during the years ending 2010 through 2014 and for 2015 and thereafter are \$142,007, \$334,071, \$1,367, \$986, \$665 and \$0, respectively.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(9) Pension and Postretirement Benefits other than Pensions:

The Company has noncontributory defined benefit pension plans covering a significant number of its employees. The benefits under these plans are based primarily on years of service and compensation levels. The Company also provides health benefits for certain retired employees and certain dependents when the employee becomes eligible for these benefits by satisfying plan provisions that include certain age and service requirements. The measurements for the pension and health benefits plans were performed at December 31.

Pension Benefits

Pension expense for 2009, 2008, and 2007 for these defined benefit plans consists of the following components:

	December 31,		
	2009	2008	2007
Service cost	\$ 4,021	\$ 4,371	\$ 4,637
Interest cost	13,573	13,635	12,593
Expected return on plan assets	(11,144)	(12,202)	(10,643)
Amortization of prior service cost	(231)	(318)	49
Amortization of net loss	2,886	1,871	2,847
Net periodic pension expense	<u>\$ 9,105</u>	<u>\$ 7,357</u>	<u>\$ 9,483</u>

The Company incurred \$1,036 of curtailment expense in 2007 related to discontinuing production of certain product lines manufactured in Swindon, England. The curtailment expense is not included in the net periodic pension expense disclosed above.

The Company expects to incur income of \$303 related to the amortization of prior service costs and expense of \$5,431 for amortization of net loss in 2010.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(9) Pension and Postretirement Benefits other than Pensions: (Continued)

The following table sets forth the plans' funded status as of the respective balance sheet dates:

	December 31,	
	2009	2008
Reconciliation of benefit obligation:		
Benefit obligation at January 1	\$ (220,473)	\$ (228,931)
Service cost	(4,021)	(4,371)
Interest cost	(13,573)	(13,635)
Plan participant contributions	(1,068)	(1,411)
Plan amendments	—	(100)
Plan curtailment(1)	2,427	—
Actuarial gain (loss)	(9,554)	2,363
Benefit payments	13,648	10,412
Effect of exchange rate changes	(5,667)	15,200
Benefit obligation at December 31	(238,281)	(220,473)
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	135,550	160,095
Actual return on plan assets	23,353	(28,896)
Employer contributions	10,415	27,574
Effect of exchange rate changes	5,019	(16,103)
Plan participant contributions	1,068	1,411
Benefit payments	(11,045)	(8,531)
Fair value of plan assets at December 31	164,360	135,550
Funded status at December 31	(73,921)	(84,923)
Net amount recognized	\$ (73,921)	\$ (84,923)

(1)

Reduced benefit obligation due to plan curtailment related to the significant reduction in plan participants in the U.S. plan.

Amounts recognized in the consolidated balance sheets as of:

	December 31,	
	2009	2008
Long-term pension liability, net(1)	\$ (72,029)	\$ (84,923)
Current pension liability	(1,892)	—

Net amount recognized	\$ (73,921)	\$ (84,923)
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(1)

Includes plan assets of \$371 and \$6,043 in 2009 and 2008, respectively, that is included in other assets.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(9) Pension and Postretirement Benefits other than Pensions: (Continued)

The aggregate projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with projected and accumulated benefit obligations in excess of plan assets as of December 31, 2009 and 2008 were as follows:

	Projected and Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets			
	U.S. Plans		Non-U.S. Plans	
	December 31,		December 31,	
	2009	2008	2009	2008
Projected benefit obligation	\$ 133,780	\$ 135,909	\$ 54,199	\$ 48,606
Accumulated benefit obligation	124,967	121,046	52,475	—
Fair value of plan assets	90,988	75,502	22,702	18,048

Amounts recorded in accumulated other comprehensive income as of:

	December 31,	
	2009	2008
Actuarial loss	\$ 65,002	\$ 71,899
Prior service cost	(3,391)	(3,607)
	\$ 61,611	\$ 68,292

These amounts have not yet been recognized as components of net periodic pension expense.

Significant assumptions used in determining pension expense and related pension obligations are as follows:

	December 31,		
	2009	2008	2007
Discount Rates			
United States	6.00%	6.25%	6.50%
Germany	5.30	5.75	5.50
United Kingdom	5.70	6.70	6.00
Rates of increase in compensation levels			
United States	3.50	3.50	3.50
Germany	2.50	3.50	3.50
United Kingdom	4.60	3.70	4.50
Expected long-term rate of return on assets			
United States	8.50	8.50	8.50
Germany	5.25	4.66	4.84
United Kingdom	6.10	6.30	6.30

The discount rate assumptions were based on investment yields available on AA rated long-term corporate bonds with cash flows that are similar to expected benefit payments.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(9) Pension and Postretirement Benefits other than Pensions: (Continued)

The expected return on plan assets is based on the asset allocation mix and the historical return, taking into account current and expected market conditions.

Plan Assets

The target asset allocation for the U.S. pension assets, on average, is 60% in equity securities and 40% in fixed income securities. This allocation is expected to earn an average annual rate of return of approximately 8.5% measured over a planning horizon of twenty years with reasonable and acceptable levels of risk. This expected level will be obtained, with an allowance for expenses, and cash investments, if equity securities realize an average annual return of 11.0% and fixed income securities produce an average annual yield of 6.0%.

The target asset allocation for the U.K. pension assets, on average, is 42% in equity securities, 50% in fixed income securities, and 8% in cash. This allocation is expected to earn an average annual rate of return of approximately 6.0%.

The target asset allocation for the German pension assets is 10% in equity securities and 90% in fixed income securities. This allocation is expected to earn an average annual rate of return of approximately 4.5% measured over a long-term planning horizon. This expected level will be obtained, with an allowance for expenses, and cash investments, if equity securities realize an average annual return of 7 to 8% and fixed income securities produce an average annual yield of 2.5 to 3%.

The weighted average asset allocations by asset category for the pension plans at December 31 are as follows:

	U.S. Plans		U.K. Plans		German Plans	
	2009	2008	2009	2008	2009	2008
Equity securities	66%	53%	42%	39%	14%	7%
Fixed income securities	33	45	50	48	81	91
Other	1	2	8	13	5	2
Total	100	100	100	100	100	100

The following table presents the Company's plan assets using the fair value hierarchy as of December 31, 2009. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(9) Pension and Postretirement Benefits other than Pensions: (Continued)

identical assets. Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant non-observable inputs.

	Level 1	Level 2	Level 3	Total
Fixed income securities				
Corporate bonds	\$ —	\$ 23,966	\$ —	\$ 23,966
U.S. government and agencies	—	8,059	—	8,059
Mortgage backed and asset backed securities	—	5,765	—	5,765
International index-linked government securities	31,938	—	—	31,938
Other	—	875	—	875
Cash equivalents and short-term investments	5,896	2,113	—	8,009
Equity securities				
Common and preferred stock	2,305	—	—	2,305
Common/collective/pooled funds	690	37,633	—	38,323
Derivatives	29	—	—	29
International equity	44,871	—	—	44,871
Total	<u>\$ 85,729</u>	<u>\$ 78,411</u>	<u>\$ —</u>	<u>\$ 164,140</u>
Receivables				244
Payables				(24)
Total plan assets				<u>\$ 164,360</u>

Fixed income securities are primarily valued using a market approach with inputs that include broker quotes, benchmark yields, base spreads and reported trades.

Cash equivalents and short-term investments are primarily held in registered money market funds which are valued using a market approach based on the quoted market prices of identical instruments.

Common and preferred stock equity securities and international equity securities are valued using a market approach based on quoted market prices. Common/collective/pooled funds are common or collective trusts valued at their net asset values that are calculated by the investment manager or fund sponsor based on the quoted market prices of the underlying investments.

Postretirement Benefits

The health benefit plans covering certain groups of U.S. employees are contributory, with contributions reviewed annually and adjusted as appropriate. These plans contain other cost-sharing features such as deductibles and coinsurance. The Company does not pre-fund these plans and has the right to modify or terminate any of these plans in the future. Health benefits for retirees of non-U.S. operations, where applicable, are provided through government-sponsored plans to which the Company contributes funds during the individuals' employment periods.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(9) Pension and Postretirement Benefits other than Pensions: (Continued)

The components of the postretirement benefit expense of the Company-sponsored health benefit plans for 2009, 2008, and 2007, were as follows:

	2009	2008	2007
Service cost	\$ 211	\$ 225	\$ 385
Interest cost	2,597	2,634	2,212
Net deferral and amortization	921	1,030	947
Postretirement benefit expense	<u>\$ 3,729</u>	<u>\$ 3,889</u>	<u>\$ 3,544</u>

The Company expects to incur income of \$128 for amortization of prior service costs and expense of \$1,201 for amortization of net loss in 2010.

The funded status of the Company-sponsored health benefit plans was as follows:

	December 31,	
	2009	2008
Reconciliation of benefit obligation:		
Benefit obligation at January 1	\$ (41,060)	\$ (38,648)
Service cost	(211)	(225)
Interest cost	(2,597)	(2,634)
Plan participant contributions	(495)	(447)
Plan amendment	2,081	—
Plan curtailment	779	—
Actuarial loss	(6,296)	(2,495)
Benefit payments	4,011	3,470
Health care subsidy receipts	(87)	(81)
Benefit obligation at December 31	<u>(43,875)</u>	<u>(41,060)</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	—	—
Employer contributions	3,429	2,942
Plan participant contributions	495	447
Health care subsidy receipts	87	81
Benefit payments	(4,011)	(3,470)
Fair value of plan assets at December 31	<u>—</u>	<u>—</u>
Benefit obligation	(43,875)	(41,060)
Less current portion	<u>2,828</u>	<u>3,089</u>
Postretirement benefit obligation, long-term	<u>\$ (41,047)</u>	<u>\$ (37,971)</u>

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(9) Pension and Postretirement Benefits other than Pensions: (Continued)

Amounts recognized in accumulated other comprehensive income as of:

	December 31,	
	2009	2008
Actuarial loss	\$ 24,430	\$ 19,834
Prior service credit	(2,081)	—
	\$ 22,349	\$ 19,834

The assumed weighted average annual rate of increase in the per capita cost of medical benefits is 8.0% for 2009 and is assumed to decrease ratably in 2010 through 2013 and remain level at 4.5% thereafter.

U.S. employees retiring after March 1, 1993, and hired prior to January 1, 1993, will receive the standard health benefits up to age 65 and then will be eligible for a Medicare reimbursement allowance based on years of service. U.S. employees hired after January 1, 1993, and retiring after age 65 with ten years of service, will be eligible at age 65 for a Medicare reimbursement allowance based on years of service.

A one percent increase or decrease in the annual health care trend rates would have increased or decreased the accumulated postretirement benefit obligation at December 31, 2009, by \$4,321, and increased or decreased postretirement benefit expense for 2009 by \$244. The weighted average discount rate used to estimate the accumulated postretirement benefit obligation was 6.0%, 6.25%, and 6.5% for 2009, 2008, and 2007, respectively.

The benefits expected to be paid from the benefit plans, which reflect expected future years of service, and the Medicare subsidy expected to be received are as follows:

	Pensions	Health Care	Health Care Subsidy Receipts
2010	\$ 12,185	\$ 2,904	\$ 76
2011	10,999	3,096	82
2012	11,497	3,246	87
2013	12,324	3,322	92
2014	13,037	3,445	97
2015-2019	76,794	17,842	520

The Company plans to contribute approximately \$13,000 to the Company pension and health benefit plans in 2010.

The Company also maintains two defined contribution plans, the Sauer-Danfoss Employees' Savings Plan and the Sauer-Danfoss LaSalle Factory Employee Savings Plan, for eligible employees. Company contributions include both base and matching amounts. The Company contributed approximately \$2,400, \$3,100, and \$2,900 to these plans in 2009, 2008 and 2007, respectively.

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Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(10) Income Taxes:

The Company's income (loss) before income taxes is as follows:

	Years Ended December 31,		
	2009	2008	2007
United States	\$ (97,054)	\$ 15,387	\$ 22,164
European and other	(174,181)	(12,657)	65,435
Total	\$ (271,235)	\$ 2,730	\$ 87,599

The Company's primary German operation is treated as a flow-through entity for U.S. tax purposes. The above analysis of pretax income (loss) and the following analysis of the income tax provision by taxing jurisdiction are therefore not directly related.

The benefit (expense) for income taxes by taxing jurisdiction is as follows:

	Years Ended December 31,		
	2009	2008	2007
Current			
United States			
Federal	\$ 225	\$ (1,575)	\$ (656)
State	254	(1,487)	(1,339)
European and other	(9,779)	(30,012)	(20,288)
Total Current	(9,300)	(33,074)	(22,283)
Deferred			
United States			
Federal	(50,659)	(3,454)	(3,923)
State	(4,960)	(102)	(280)
European and other	3,900	22,570	7,647
Total Deferred	(51,719)	19,014	3,444
Total income tax expense	\$ (61,019)	\$ (14,060)	\$ (18,839)

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Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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(Dollars in thousands, except per share data)

(10) Income Taxes: (Continued)

A reconciliation of tax benefit (expense) calculated using the U.S. statutory tax rate and recorded income tax expense based on the Company's income before income taxes is as follows:

	Years Ended December 31,		
	2009	2008	2007
Tax benefit (expense) based on U.S. statutory tax rate	\$ 94,932	\$ (956)	\$ (30,659)
Statutory tax rate change	—	93	393
Foreign taxes (rate and other differences)—net	(14,652)	(5,890)	(2,528)
State income taxes—net of federal benefit	(3,059)	(1,033)	(777)
Tax effect of minority interest	3,242	3,869	5,815
Tax reserves and allowances—net	(123,305)	(3,051)	9,910
Non-deductible expenses/Non-taxable income—net	(1,884)	(971)	(1,681)
U.S. & foreign goodwill impairment	(17,163)	(6,281)	—
Other	870	160	688
Total income tax expense	\$ (61,019)	\$ (14,060)	\$ (18,839)

The components of the Company's net deferred tax assets and liabilities, determined on a jurisdictional and entity basis, are attributable to the following:

	December 31,			
	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Net operating loss (NOL) and tax credit carryforwards	\$ 77,565	\$ —	\$ 18,057	\$ —
Deferred compensation, postretirement medical and accrued pension benefits	39,288	—	44,760	(871)
Fixed asset basis differences	22,440	(12,998)	7,241	(22,303)
Inventory and warranty accruals	13,660	(1,574)	9,628	(2,349)
Intangible asset fair market value step-up	6,394	(9,421)	8,908	(8,894)
Other items	29,498	(10,964)	37,594	(11,141)
Gross deferred tax assets/liabilities	188,845	(34,957)	126,188	(45,558)
Valuation allowance	(130,475)	—	(6,103)	—
Net deferred tax assets/liabilities	58,370	(34,957)	120,085	(45,558)
Less current portion	(3,912)	1,249	(13,101)	1,315
Net deferred tax assets/liabilities,	\$ 54,458	\$ (33,708)	\$ 106,984	\$ (44,243)

long-term

The ultimate realization of net deferred tax assets is dependent upon the generation of future taxable income during (i) the years in which temporary differences reverse and (ii) the years prior to the expiration of NOL and credit carryforwards. Management considers projected future taxable income and tax planning strategies in making this assessment.

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(10) Income Taxes: (Continued)

In 2009 the Company determined that all of the net deferred tax assets in the U.S., Denmark and Italy that have not been supported by tax planning strategies would expire unused. This resulted in the majority of the increase in valuation allowances of approximately \$125,000.

As of December 31, 2009 and 2008, the Company had not provided U.S. federal income taxes on \$126,686 and \$170,556, respectively, of undistributed earnings recorded by certain subsidiaries outside the U.S. since these earnings were deemed permanently invested. Although it is not practicable to determine the deferred tax liability on the unremitted earnings, foreign tax credits would be available to reduce U.S. tax liability if these foreign earnings were remitted.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005. During 2009, the Internal Revenue Service completed a limited scope audit of the Company's 2007 federal income tax return. The audit resulted in immaterial adjustments and has been incorporated into the Consolidated Financial Statements.

A reconciliation of the beginning and ending gross unrecognized tax benefits (UTB) is as follows:

	<u>Amount</u>
Gross UTB Balance at January 1, 2009	\$ 2,317
Additions based on tax positions related to the current year	144
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Settlements	(959)
Foreign currency adjustments	44
Reductions due to lapse of applicable statute of limitations	—
Gross UTB Balance at December 31, 2009	1,546
Net UTB impacting the effective tax rate at December 31, 2009	144

The total amount of UTB that, if recognized, would affect the effective tax rate as of December 31, 2009 and 2008 were \$144 and \$743, respectively. The total amount of UTB is not expected to significantly increase or decrease within the next twelve months. The net UTBs are included as components of deferred income tax assets and other liabilities in the Consolidated Balance Sheets.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense and other expense. Interest and penalties of \$288 and \$194 have been accrued as of December 31, 2009 and December 31, 2008, respectively. Interest and penalty expense of \$90 and \$198 were recognized for years ending December 31, 2009 and December 31, 2008, respectively.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(10) Income Taxes: (Continued)

The Company had the following tax return carryforwards available to offset future years' taxable income at December 31, 2009:

	Amount	Expiration Dates
German		
NOL—National	\$ 49,168	None
German		
NOL—Trade	18,596	None
U.S. NOL	106,482	2010-2029
U.K. NOL	11,506	None
Denmark NOL	68,555	None
Italy NOL	12,436	2013-2014
Brazil NOL	10,785	None
China NOL	6,136	2010-2014
Japan NOL	5,492	2017
Other non-U.S.		
NOL	7,085	Various
State NOL	50,752	2010-2029
Foreign tax credits (available to offset U.S. taxes)	1,750	2029
State tax credits	835	2010-2019

(11) Accumulated Other Comprehensive Income:

The changes in accumulated other comprehensive income for the years ended December 31, 2007, 2008, and 2009 follows:

	Currency Translation	Pension/ Postretirement Benefit Adjustment	Hedging Activities	Accumulated Other Comprehensive Income
Balance as of January 1, 2007	\$ 77,331	\$ (51,556)	\$ 568	\$ 26,343
Change in period	40,736	16,202	2,551	59,489
Effect of exchange rate changes	—	(1,288)	120	(1,168)
Income tax expense	—	(2,452)	(527)	(2,979)
Balance as of December 31, 2007	118,067	(39,094)	2,712	81,685
Change in period	(24,389)	(38,719)	(9,185)	(72,293)
Effect of exchange rate changes	—	1,844	(85)	1,759
Income tax benefit	—	14,435	2,409	16,844
Balance as of December 31, 2008	93,678	(61,534)	(4,149)	27,995
Change in period	16,684	5,196	6,174	27,924
Effect of exchange rate changes	—	(1,016)	(44)	(956)
Income tax benefit (expense)	—	2,206	(1,773)	459
Balance as of December 31, 2009	\$ 110,362	\$ (55,148)	\$ 208	\$ 55,422

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(12) Noncontrolling Interests:

Noncontrolling interests in net assets and income reflected in the accompanying consolidated financial statements for 2009, 2008, and 2007 consists of:

- a) A 40% noncontrolling interest held by Agri-Fab, Inc. in Hydro-Gear Limited Partnership, a U.S. limited partnership.
- b) A 40% noncontrolling interest held by Shanghai Hydraulics and Pneumatics in Sauer Shanghai Hydraulic Transmission Co., Ltd., a Chinese equity business venture.
- c) A 35% noncontrolling interest held by Daikin Industries Ltd. in Sauer-Danfoss-Daikin, Ltd., a Japanese corporation.
- d) A 49.9% noncontrolling interest held by Topcon Positioning Systems in TSD Integrated Controls LLC, a U.S. limited partnership.
- e) A 55% noncontrolling interest held by Daikin Industries Ltd. in Daikin-Sauer-Danfoss Manufacturing, Ltd., a Japanese corporation.

The following table sets forth the components of noncontrolling interest in the consolidated balance sheets:

	December 31,	
	2009	2008
Hydro-Gear Limited Partnership	\$ 28,187	\$ 32,453
Sauer Shanghai Hydraulic Transmission Co., Ltd.	13,699	13,448
Sauer-Danfoss-Daikin, Ltd.	11,543	9,500
TSD Integrated Controls LLC(1)	(864)	1,128
Daikin-Sauer-Danfoss Manufacturing, Ltd.	10,095	11,126
Total	\$ 62,660	\$ 67,655

- (1) In connection with the wind-down of the TSD joint venture discussed in Note 2 the noncontrolling interest partner has received distribution of assets in excess of their interest in the joint venture. There will be a settlement between the joint venture partners at the end of the wind-down period.

The Hydro-Gear Limited Partnership agreement indicates a termination date of December 31, 2035. This entity is consolidated in the Company's financial statements. The agreement indicates that if the partnership were to terminate the partnership would be liquidated and the resulting proceeds would be distributed in accordance with each partner's ownership percentage

(13) Long-Term Incentive Plan:

The Company's 2006 Omnibus Incentive Plan (2006 Incentive Plan) and 1998 Long-Term Incentive Plan (1998 Incentive Plan) provide for the grant of stock options, stock appreciation rights, restricted stock, performance units, performance shares, and other incentive awards to officers and key employees.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(13) Long-Term Incentive Plan: (Continued)

The 2006 Incentive Plan qualifies certain awards for the performance-based exception to obtain favorable tax treatment. The total number of shares of common stock that may be subject to awards or be issued under the 2006 Incentive Plan and the 1998 Incentive Plan shall not exceed 3,500,000 shares and 2,400,000 shares, respectively, of which no more than 1,200,000 shares may be issued as restricted stock under the 1998 Incentive Plan. The settlement of performance units is in shares of Company stock or cash as determined by the Compensation Committee of the Board of Directors. The performance units entitle the participants to receive an amount equal to the Company's dividends during the vesting period.

No performance units were granted in 2009. In 2008 the Compensation Committee granted 328,053 performance units under the 2006 Incentive Plan, 307,945 of which were to be settled 100 percent in Company stock with shares withheld having a value to meet the minimum statutory withholding requirements and 20,108 performance units granted to certain individuals that were to be settled in cash. In 2007 the Compensation Committee granted 273,101 performance units under the 2006 Incentive Plan, 213,553 of which were to be settled 100 percent in Company stock with shares withheld having a value to meet the minimum statutory withholding requirements and 59,548 performance units granted to certain individuals that were to be settled in cash. The units to be settled in cash are accounted for as liability units, with the remainder of the units accounted for as equity units.

The following chart summarizes performance unit activity under the Plan for the year ended December 31, 2009:

<u>Equity Units</u>	<u>Number</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Vesting Period in Years</u>
Units outstanding at January 1	705,609	\$ 24.34	3.0
Units settled	(249,322)	25.04	3.0
Units forfeited	(116,289)	24.11	3.0
Units outstanding at December 31	339,998	23.90	3.0
Cash Units			
Units outstanding at January 1	117,304		
Units settled	(83,164)		
Units forfeited	(34,140)		
Units outstanding at December 31	—		

The Compensation Committee sets performance goals for each performance unit grant and depending on the extent to which these goals are met will determine the number of performance units that will be paid out to the participants. Based on performance results for 2007 through 2009 the performance units granted in 2007 are not expected to receive a payout as the minimum performance threshold was not met.

Compensation expense is recognized over the vesting period of three years, measured based on the market price of the Company's stock at the date of grant with an offsetting increase in additional paid-in capital. The expense related to the grants that will be settled in cash is based on the market price of the Company's stock as of the balance sheet date. In accordance with the terms of the performance unit grants

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(13) Long-Term Incentive Plan: (Continued)

of the previous President and CEO of the Company, who retired on January 1, 2009, the grants related to performance periods after he left the company would be paid at 100% of the performance target and therefore the expense for his 2007 and 2008 grants were fully expensed in 2008, rather than over the three year performance period.

In 2007 the Compensation Committee awarded 10,000 shares of restricted stock under the 2006 Incentive Plan. Vesting of 5,000 of the shared occurred in both 2009 and 2008. The restricted stock awards entitle the participants to full dividend and voting rights. The value of the award was established based on the market value of the stock as of the grant date.

Compensation income or expense recognized in selling, general, and administrative expenses in conjunction with the performance units and restricted stock outstanding was expense of \$18 in 2009, income of \$2,260 in 2008, and expense of \$4,301 in 2007. The income recognized in 2008 was due to reducing the accrual related to the performance units to be settled in cash and the accrual related to the 2007 performance unit grant due to the decrease in financial performance during 2008. The tax expense recognized related to the 2008 income was \$814 and tax benefits recognized related to expense was \$6 and \$1,555, in 2009 and 2007, respectively. The Company does not expect to recognize any additional compensation expense related to the outstanding performance units and restricted stock under these two plans.

The Company also has a Non-employee Director Stock Option and Restricted Stock Plan which permits the granting of non-qualified stock options and restricted common stock to directors of the Company who are not employees of the Company. The total number of shares of common stock to be issued under this plan shall not exceed 250,000 shares. The 2006 Incentive Plan also allows for grants of equity based shares to directors of the Company.

Under the 2006 Incentive Plan the Company awarded 13,500 shares of restricted stock in 2009 and 15,000 shares of restricted stock in 2008 to non-employee directors. Under the Non-employee Director Stock Option and Restricted Stock Plan the Company awarded 13,500 shares of restricted stock in 2007 to non-employee directors. In 2009, 3,000 shares of restricted stock were forfeited prior to being vested. The restricted stock awards entitle the participants to full dividend and voting rights. Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances. The value of each award was established based on the market value of the stock as of the grant date. The shares vest over three years. Compensation expense is computed based on the market value of the restricted shares at the grant date, which is amortized ratably over the vesting period of the grants. Compensation expense recognized in conjunction with the restricted stock outstanding to non-employee directors in 2009, 2008, and 2007 amounted to \$235, \$448, and \$316, respectively.

(14) Related Person Transactions:

In connection with the acquisition of Danfoss Fluid Power on May 3, 2000, the Company entered into several agreements with Danfoss A/S to purchase ongoing operational services from Danfoss A/S. These services include rental of shared facilities, administrative support and information technology support. These fees are paid on a monthly basis. Total expense recognized for goods and services purchased from Danfoss A/S for 2009, 2008, and 2007 was approximately \$43,800, \$87,100, and \$72,400, respectively. At

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(14) Related Person Transactions: (Continued)

December 31, 2009 and 2008 approximately \$10,000 and \$7,900 owed to Danfoss A/S is included in accounts payable on the consolidated balance sheet. Payments required under these agreements as of December 31, 2008, during the years ending 2010 through 2014 and 2015 and thereafter, are \$9,321, \$9,331, \$9,238, \$8,994, \$8,994, and \$23,020, respectively. The Company also sold products to Danfoss A/S totaling approximately \$3,200, \$6,800, and \$8,000 during 2009, 2008, and 2007, respectively. At December 31, 2009 and 2008 approximately \$800 and \$1,500 due from Danfoss A/S is included in accounts receivable on the consolidated balance sheet.

The subsidiaries in Denmark file a joint tax return with Danfoss A/S as required under the laws of Denmark.

The Company can borrow up to \$690,000 under a term loan and revolving credit facility with Danfoss A/S. Refer to Note 8 for additional discussion of the Danfoss Credit Agreement which was entered into in November 2009.

In 2008 the Company entered an Agreement for Transfer of Business and Sale of Inventory (Agreement) with Danfoss LLC, a subsidiary of Danfoss A/S. The Agreement replaced a Distribution and Service Agreement which had been in place with Danfoss A/S under which Sauer-Danfoss product had been sold in the Commonwealth of Independent States. The Company purchased primarily customer relationships and inventory in this transaction for approximately \$1,200.

The Company purchases inventory components from Shanghai Hydraulics and Pneumatics, a noncontrolling interest owner in an entity included in the Company's consolidated financial statements. Purchases were approximately \$4,000, \$5,600, and \$4,900 in 2009, 2008, and 2007, respectively.

The Company sold product totaling approximately \$2,300, \$4,100 and \$4,900 in 2009, 2008 and 2007, respectively, to Daikin Industries Ltd. (Daikin), a minority interest owner in an entity consolidated by the Company. The Company also purchases inventory components and ongoing operational services from Daikin. These services include shared facilities and administrative support. Total expense recognized for goods and services purchased from Daikin in 2009, 2008, and 2007 were approximately \$5,200, \$6,500 and \$6,000, respectively.

The Company had sales to Faun Umwelttechnik GmbH & Co., a company owned by a director of the Company, of approximately \$2,000, \$1,000 and \$1,700 in 2009, 2008 and 2007, respectively.

(15) Commitments, Contingencies, and Guarantees:

The Company leases certain facilities and equipment under operating leases, many of which contain renewal options. Total rental expense on all operating leases during 2009, 2008, and 2007 was \$23,910, \$26,254, and \$20,477, respectively. Rent is expensed on a straight-line basis over the term of the leases.

Minimum future rental commitments under all noncancelable operating leases as of December 31, 2009, during the years ending 2010 through 2014 and for 2015 and thereafter, are \$13,664, \$10,474, \$8,116, \$7,109, \$6,750, and \$10,997, respectively.

The Company also leases certain facilities and equipment under capital leases. The liability related to these capital leases is included in current other accrued liabilities and other long-term liabilities on the

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(15) Commitments, Contingencies, and Guarantees: (Continued)

consolidated balance sheets. Minimum future lease payments under all noncancelable capital leases as of December 31, 2009, during the years ending 2010 through 2014 and for 2015 and thereafter, are \$663, \$604, \$329, \$33, \$4, and \$0, respectively.

The Company has been named as a defendant in four putative stockholder class action complaints (collectively, the Lawsuits) challenging the proposal by Danfoss Acquisition Inc., a wholly owned subsidiary of Danfoss A/S, to make a tender offer to purchase all the outstanding shares of Company common stock not presently held, directly or indirectly, by Danfoss A/S. Each of the Lawsuits was filed on behalf of the named plaintiffs and the other minority stockholders on the Company. The defendants in the Lawsuits are the Company, Danfoss A/S, Danfoss Acquisition Inc., and current and former directors of the Company. Each lawsuit is premised on allegations that the price offered in the proposed tender offer is inadequate and that the defendants have breached their fiduciary duties to the Company's stockholders in connection with the proposed tender offer. The Company believes that it has valid defenses with respect to these claims and intends to defend itself against them. The Lawsuits are all in preliminary stages, so it is not possible for the Company to predict their outcomes with any certainty.

The Company, from time to time, is involved in various legal matters considered normal in the course of its business. The Company intends to vigorously defend against all such claims. It is the Company's policy to accrue for amounts related to these matters if it is probable that a liability has been incurred and an amount can be reasonably estimated. Although the outcome of such matters cannot be predicted with certainty and no assurances can be given with respect to such matters, the Company believes that the outcome of these matters in which it is currently involved will not have a materially adverse effect on its results of operations, liquidity or financial position.

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(16) Quarterly Financial Data (Unaudited):

Summarized quarterly data is set forth in the following table:

	First	Second	Third	Fourth	Total
2009					
Net sales	\$ 349,695	\$ 277,411	\$ 253,074	\$ 278,851	\$ 1,159,031
Gross profit	58,018	30,803	14,954	24,178	127,953
Net loss	(78,406)	(121,826)	(70,801)	(74,733)	(345,766)
Basic net loss per common share	\$ (1.62)	\$ (2.52)	\$ (1.46)	\$ (1.55)	\$ (7.15)
Diluted net loss per common share	\$ (1.62)	\$ (2.52)	\$ (1.46)	\$ (1.55)	\$ (7.15)
2008					
Net sales	\$ 617,399	\$ 611,538	\$ 490,188	\$ 371,388	\$ 2,090,513
Gross profit	147,725	138,006	111,866	38,013	435,610
Net income (loss)	27,863	22,706	10,901	(90,611)	(29,141)
Basic net income (loss) per common share	\$ 0.58	\$ 0.47	\$ 0.23	\$ (1.88)	\$ (0.60)
Diluted net income (loss) per common share(1)	\$ 0.57	\$ 0.47	\$ 0.22	\$ (1.88)	\$ (0.60)
2007					
Net sales	\$ 523,132	\$ 503,472	\$ 451,771	\$ 494,173	\$ 1,972,548
Gross profit	124,585	112,295	94,221	96,601	427,702
Net income	15,369	17,633	5,499	8,697	47,198
Basic net income per common share	\$ 0.32	\$ 0.37	\$ 0.11	\$ 0.18	\$ 0.98
Diluted net income per common share	\$ 0.32	\$ 0.37	\$ 0.11	\$ 0.18	\$ 0.98

(1)

Basic and diluted net income (loss) per common share is computed independently for each of the periods presented. Accordingly, the sum of the quarterly basic and diluted net income (loss) per common share may not agree to the annual total.

(17) Segment and Geographic Information:

The Company reports its operating segments around its various product lines of Propel, Work Function and Controls. Propel products include hydrostatic transmissions and related products that transmit the power from the engine to the wheel to propel a vehicle. Work Function products include steering motors as well as gear pumps and motors that transmit power for the work functions of the vehicle. Controls products include electrohydraulic controls, microprocessors, and valves that control and direct the power of a vehicle. Segment costs in Global Services relate to internal global service departments and include costs such as consulting for special projects, tax and accounting fees paid to

Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(17) Segment and Geographic Information: (Continued)

outside third parties, certain insurance premiums, and amortization of intangible assets from certain business combinations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates individual segment performance based on segment income or loss defined as the respective segment's portion of the total Company's net income, excluding net interest expense, income taxes, minority interest, and equity in net earnings of affiliates.

The following table presents the significant items by operating segment for the results of operations for the years ended December 31, 2009, 2008, and 2007, respectively:

	Propel	Work Function	Controls	Global Services	Total
2009					
Trade sales	\$ 613,433	\$ 274,654	\$ 270,944	\$ —	\$ 1,159,031
Segment loss	(24)	(81,932)	(101,107)	(23,938)	(207,001)
Interest income					1,775
Interest expense					(50,171)
Loss on early retirement of debt					(15,838)
Loss before income taxes					(271,235)
Total assets	404,990	243,947	197,257	222,123	1,068,317
Depreciation and amortization	57,584	31,740	25,201	2,605	117,130
Capital expenditures	19,336	14,390	8,670	576	42,972
2008					
Trade sales	\$ 1,016,609	\$ 561,416	\$ 512,488	\$ —	\$ 2,090,513
Segment income (loss)	156,805	(65,699)	(21,386)	(42,362)	27,358
Interest income					1,026
Interest expense					(25,654)
Income before income taxes					2,730
Total assets	541,489	330,628	272,186	323,373	1,467,676
Depreciation and amortization	48,111	38,411	23,485	2,955	112,962
Capital expenditures	98,982	54,312	36,714	8,626	198,634
2007					
Trade sales	\$ 940,692	\$ 534,040	\$ 497,816	\$ —	\$ 1,972,548
Segment income (loss)	146,617	(2,886)	17,740	(51,131)	110,340
Interest income					1,048
Interest expense					(23,789)
Income before income taxes					87,599
Total assets	496,021	372,775	301,214	330,412	1,500,422
Depreciation and amortization	43,882	32,987	20,422	5,012	102,303
Capital expenditures	61,129	35,804	30,189	8,511	135,633

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Sauer-Danfoss Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008, and 2007

(Dollars in thousands, except per share data)

(17) Segment and Geographic Information: (Continued)

A summary of the Company's net sales and long-lived assets by geographic area is presented below:

	Net Sales(1)			Long-Lived Assets(2)	
	2009	2008	2007	2009	2008
United States	\$ 424,680	\$ 740,506	\$ 744,560	\$ 138,416	\$ 193,144
Germany	120,084	229,101	205,661	71,354	76,801
Italy	64,021	145,666	147,614	16,316	36,424
Denmark(3)	16,405	36,146	31,423	144,282	185,785
Other countries	533,841	939,094	843,290	205,606	228,070
Total	<u>\$ 1,159,031</u>	<u>\$ 2,090,513</u>	<u>\$ 1,972,548</u>	<u>\$ 575,974</u>	<u>\$ 720,224</u>

(1)

Net sales are attributed to countries based on location of customer.

(2)

Long-lived assets include property, plant and equipment net of accumulated depreciation, goodwill, intangible assets net of accumulated amortization, and certain other long-lived assets.

(3)

Majority of this country's sales are shipped outside of the home country where the product is produced.

No single customer accounted for 10% or more of total consolidated sales in any year presented.

(18) Subsequent Events:

On December 22, 2009 Danfoss A/S, the majority stockholder of the Company, issued a press release announcing its intention, through its wholly owned subsidiary, Danfoss Acquisition, Inc., to commence a cash tender offer to be followed (in certain circumstances) by a statutory merger for the purpose of acquiring all the outstanding shares of Company common stock not already owned, directly or indirectly, by Danfoss A/S for a price of \$10.10 per share. On January 15, 2010 Danfoss issued a press release announcing an indeterminate delay in launching its proposed tender offer. As of March 3, 2010 Danfoss had not commenced the proposed tender offer.

The Company has evaluated subsequent events through March 4, 2010, the date the financial statements were issued, to ensure that the Form 10-K includes appropriate disclosure of events recognized in the financial statements as of December 31, 2009, and events that occurred subsequent to December 31, 2009 but were not recognized in the financial statements.

Report of Management

Management Oversight

Sauer-Danfoss believes that good corporate governance promotes ethical business practices, demands meticulous accounting policies and procedures, and includes a structure with effective checks and balances. The management of Sauer-Danfoss is responsible for the integrity and objectivity of the financial information presented in this annual report on Form 10-K. Sauer-Danfoss believes that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States applying certain estimates and judgments as required.

Our management is responsible for establishing and maintaining a system of internal controls over financial reporting. This system is augmented by written policies and procedures, careful selection and training of financial management personnel, a continuing management commitment to the integrity of the system, and through examinations by an internal audit function that coordinates its activities with the Company's independent auditors.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

Independent Oversight

All of our directors are skilled business leaders. The members of the Board and each committee have express authority to retain outside advisors. The Board and each committee perform annual self-evaluations in order to assess their performance and to ensure that the Board and committee structure is providing effective oversight of corporate management.

Our Audit Committee is composed entirely of independent outside directors. The Committee meets periodically with management, the internal auditors, and the independent auditors, both separately and jointly, to discuss internal accounting controls and the quality of financial reporting. To ensure complete independence, the internal auditors and representatives of KPMG LLP have full access to meet with the Audit Committee, with or without management representatives present, to discuss the results of their audits and their opinions on the adequacy of internal controls and the quality of financial reporting. The Audit Committee has the direct responsibility for the appointment of the independent registered accounting firm to be retained for the coming year, subject to stockholder approval.

Disclosure Controls

We have established rigorous procedures to ensure that we provide complete and accurate disclosure in our publicly filed documents. Our Disclosure Committee, made up of key individuals from various corporate functions, meets at least quarterly to review public filings and earnings releases, and to discuss any potential disclosure issues that may arise. We have established a "whistle-blower" hotline for employees, customers, suppliers or any stakeholder anywhere in the world to anonymously submit any concern they may have regarding corporate controls or ethical breaches. All complaints are investigated, and where necessary, concerns involving our financial statements, public disclosures or management are directed to our Audit Committee.

Code of Legal and Ethical Business Conduct

The Sauer-Danfoss Code of Legal and Ethical Business Conduct is based not just solely on what we have a right to do, but even more importantly, on what is the right thing to do. Annually, we reiterate the vital importance of our Code of Legal and Ethical Business Conduct by requiring employees in key functional areas to certify their compliance with the standards of the Code.

SVEN RUDER
President and Chief Executive Officer

JESPER V. CHRISTENSEN
*Executive Vice President and
Chief Financial Officer*
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Sauer-Danfoss Inc.:

We have audited the accompanying consolidated balance sheets of Sauer-Danfoss Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule (as listed in Part IV, Item 14 (a) 2 of this Form 10-K). We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (as included in Part II, Item 9A). Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sauer-Danfoss Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended

December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*.

/s/ KPMG LLP

Des Moines, Iowa
March 4, 2010

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Schedule II
Sauer-Danfoss Inc. and Subsidiaries
Valuation and Qualifying Accounts
Years Ended December 31, 2007, 2008, and 2009
(in thousands)

	Balance at Beginning of Year	Charged to Costs and Expenses	Receivables Written Off/ Settlement of Claims	Divestiture of Business	Foreign Currency Translation Adjustment	Balance at End of Year
For the year ended December 31, 2007						
Allowance for doubtful accounts	\$ 5,705	728	(1,219)	(459)	378	\$ 5,133
For the year ended December 31, 2008						
Allowance for doubtful accounts	\$ 5,133	1,394	(1,000)	—	(317)	\$ 5,210
For the year ended December 31, 2009						
Allowance for doubtful accounts	\$ 5,210	728	(860)	—	562	\$ 5,640

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LEASE

DATED 16th May., 2008

BY AND BETWEEN

PG PL 1 SP. Z O.O.

and

SAUER — DANFOSS SP.Z O.O.

OF PREMISES IN WAREHOUSE BUILDING

PANATTONI PARK WROCLAW

THIS LEASE is made on 16th May, 2008 in Warsaw,

BY AND BETWEEN

- (1) PG PL 1 Sp. z o.o., with its registered office in Warsaw, ul. Emilii Plater 53, 00-113, Warsaw, registered under KRS number 0000268547, maintained by the District Court in Warsaw, represented by the Management Board in the person of Robert Dobrzycki (“ the Landlord ”),
- (2) SAUER-DANFOSS Sp. z o.o., with its registered office in Wroclaw, ul. Metalowcow 31, 54-156 Wroclaw, registered under KRS number 0000015311, maintained by the District Court in Wroclaw, represented by the Management Board in the person of Mr. Finn Visgaard (“the Tenant”),

WHEREBY IT IS AGREED as follows:

1. DEFINITIONS

For the purpose of this Lease Contract, unless the context requires otherwise, the words and expressions mentioned below shall mean as follows:

“Building”

Warehouse building, in the development known as Panattoni Park Wroclaw containing the Unit, representing a part of the Development, located in Bielany Wroclawskie (Marked on the plan constituting in Schedule 4) and the plot on which the Building is located, entered in the Land and Mortgage Register No. KW WR1K/00164388/0, maintained by the District Court for Wroclaw.

“Commencement Date”

19 February, 2009 subject to the delivery of the Production and Warehouse Premises and Office Premises and parent guarantee in accordance with this Agreement as well as subject to meeting the deadlines indicated in Schedule 5 provided that if these deadlines are not met than consequences indicated in Schedule 5 shall apply.

“Common Areas”

Any areas of the Development (including the Building) which are not used exclusively by the tenant.

“Development”

The land in Bielany Wroclawskie and any buildings, structures or other facilities on that land and anything attached to such buildings or structures constituting in total the development known as Panattoni Park Wroclaw.

“Expiry Date”

The date on which this Lease expires or terminates.

“Lease”

This agreement and any schedules, attachments and annexes hereto.

“Loading Area”

The loading area marked on the Plans in Schedule 4.

“Office Premises”

The Office Premises described in Schedule 1 and shown in Schedule 4 (excluding parking spaces), on the ground floor and the first floor as indicated in clause 2.2 below.

“Parking Spaces”

The parking spaces marked on the Plans in Schedule 4.

“Plans”

The plans attached as Schedule 4 hereto.

“Production and Warehouse Premises”

The Production and Warehouse Premises described in Schedule 1 and shown in Schedule 4 hereto (excluding parking spaces), on the ground floor.

“Rent”

The rent specified in Schedule 2 hereto.

“Rentable Area”

The area that is designated or may be designated for a lease on an exclusive basis to a tenant in the Building or in the Development.

“Service Charges”

The service charges specified in Schedule 2 hereto.

“Services”

The services specified in Schedule 3 hereto.

“Tenant’s Percentage”

Tenant’s Percentage per Building and/or Tenant’s Percentage per Development as the case may be.

“Tenant’s Percentage per Building”

The area of the Unit expressed as a percentage of the total Rentable Area in the Building, calculated using the following formula:

$$(RAU * 100\%)/RAB = TPB \%$$

Where:

RAB — the total Rentable Area of the Building at any time

RAU — the Rentable Area of the Unit,

TPB — the Tenant’s Percentage per Building,

“Tenant’s Percentage per Development”

The area of the Unit expressed as a percentage of the total Rentable Area in the Development, calculated using the following formula:

$$(RAB * 100\%)/RAD = TPD \%$$

Where:

RAD — the total Rentable Area of the Development at any time

RAB — the Rentable Area of the Building

TPD — the Tenant’s Percentage per Development

“Taxes”

The taxes on the ownership, use or occupation of real estate, or taxes on the value of any improvements made to the Unit and/or the Development, which are payable in relation to the Unit and or the

Development during the Lease Term (but excluding any interest or penalties) as well as any cost which may be charged by the authorities to the Building and or Development as a whole. For the avoidance of doubt, it is hereby confirmed that the term "Taxes" does not include, for the purposes of this Lease, any taxes imposed on the Landlord in relation to its income or profits. In the event that the Landlord obtains an exemption in whole or in part of real estate tax in connection with the Tenant's activities in the Unit, the Tenant shall be released from the duty to reimburse the Taxes to the Landlord up to the amount of the exemption received by the Landlord.

"Unit"

The Production and Warehouse Premises and Office Premises located in the building, which are both the subject of the Lease. (Marked on the plan constituting Schedule 4 hereto)

"Unit Equipment"

Technical equipment connected to the Unit.

2. SUBJECT OF LEASE

- 2.1 The Landlord hereby leases to the Tenant the Unit consisting of the Production and Warehouse Premises and the Office Premises as described in Schedule 1 and shown in Schedule 4 hereto. The Tenant accepts the Unit consisting of the Production and Warehouse Premises and the Office Premises along with the rights specified in Part II of Schedule 1 and Schedule 7, subject to the provisions of Part III of the Schedule mentioned above. In addition, the Landlord hereby leases 150 parking spaces and loading area located at the front of the Unit to the Tenant, for its use. The fee for the use of parking spaces and the loading area is included in the Rent.
- 2.2 The Parties agree that for the purpose of calculating the Rent and the Services Charges, the Rentable Area of the Production and Warehouse Premises shall be 18 750. sq.m. and the Rentable Area of the Office Premises shall be 2154. sq.m., whereby 1271 sq.m., of the Office Premises will be located on the ground floor and 883 sq. m. of the Office Premises will be located on the first floor of the Building. Premises shall be remeasured at Commencement Date.
- 2.3 The Parties agree that the Unit is leased to the Tenant for the purpose of general warehousing and manufacturing, in the Production and Warehouse Premises and office activities in the Office Premises in accordance with this Lease and binding provisions of Polish law. Any change in the use of the Unit by the Tenant shall require the Landlord's prior written consent.
- 2.4 The Tenant shall have the right to extend this Lease in two stages for additional space of approximately 11000 sq. m. adjacent to the Unit (marked on the Plans attached in Schedule 4) on the same terms and conditions. The commencement date of lease of the first stage, consisting of 5500 sq. m. directly adjacent to the Unit shall fall not earlier than on the third and not later than on the fourth anniversary of the Commencement Date. The commencement date of the of the lease of the second stage, consisting of 5500 sq. m. directly adjacent to the first step shall fall not earlier than on the third and not later than on the seventh anniversary of the Commencement Date. The Landlord shall indicate the commencement date for first and second stage within 12 months from the Commencement Date The Tenant must give the Landlord a written notice delivered at least twelve months prior the commencement date indicated by the Landlord, if it wishes to exercise the right to one or both stages. If the Landlord fails to deliver the notice indicating the commencement date in due time, the Tenant may indicate the commencement date in its notice delivered at least 12 months before the commencement date. The Parties shall conclude an annex to this Lease, amending the subject of the lease and technical specification. The base rent for each expansion shall be negotiated by the Parties in good faith taking into account all financial conditions of this Lease, but shall in no case exceed the market rent for standard warehouse prevailing at that time.

In case of a dispute between the Parties as to the market rent for standard warehouse, such rent shall be determined by an independent licensed and insured real estate surveyor/valuer. In such case the Tenant can also request that the Landlord submits for its review, abstracts of lease agreements concluded by the Landlord for warehouses during the previous year.

3. THE LEASE TERM

- 3.1 This Lease shall come into effect upon the signing however the Lease Term as well as the obligation of the Tenant to pay Rent and Service Charge shall commence at 12:01. on the Commencement Date and, subject to the provisions of article 4 below or earlier termination in accordance with the provisions hereof, it shall expire after 10 years from the Commencement Date.
- 3.2 Tenant shall have access to all relevant design documentation related to Unit Equipment.
- 3.3 15 days before final functional test of all Unit Equipment, the Landlord shall notify Tenant in order to arrange for Tenant to be present as observer for commissioning Unit Equipment. In case the Tenant chooses to be present during such test, the stipulations of article 3.4 below shall apply accordingly.
- 3.4 After the Unit has been prepared for the Tenant, the Landlord shall notify the Tenant in writing of the possibility of the taking over of the Unit on Commencement Date. Upon receipt of such notification, the Tenant shall be under a duty to inspect the Unit and provide the Landlord with a comprehensive and binding list of any defects of the Unit within 15 days of such inspection. If the Tenant does not inspect the Unit within 15 days of the receipt of the notice or does not provide the Landlord with a list of defects within 15 days of the inspection, it shall be regarded as a confirmation that the Unit has been prepared in accordance with the Lease and the Tenant shall not be entitled to refuse the signing of the handover protocol on the Commencement Date. Any defects identified by the Tenant during the inspection described above shall be divided in two categories: major defects (understood as defects which prevent the Tenant from using the Unit for the purposes described in this Lease) and punch list items (understood as any other defects). The Tenant shall only be entitled to refuse signing the handover protocol in case there are major defects of the Unit which prevent the Tenant from using it in accordance with this Lease. In respect of the punch list items the Parties shall agree upon a reasonable time frame during which these items shall be remedied by the Landlord. If the Parties disagree as to whether a defect constitutes a major defect or a punch list item the expert understood as one of the following companies: EC Harris, Gleeds, Euromost, Tebodin to be selected by the Parties, will issue a binding opinion within five business days from the date of its appointment. Such opinion will be final and binding on both Parties, and the costs of it shall be borne by the Party which the expert declares to be incorrect in its claims regarding the classification of a defect. Both Parties undertake to act with good faith and due diligence with respect to the procedure of handing over the Unit to the Tenant. The parties shall sign a handover protocol, in the form substantially as attached hereto in Schedule 9, upon the taking over of the Warehouse and Office Premises which shall include a confirmation by the Tenant that he has inspected the Unit and confirming that it meets all specification included in the Lease. If the Tenant's authorized representative fails to appear at the date of the hand-over protocol without a valid justification or refuses to sign the take over without appropriate justification (i.e. a major defect preventing the Tenant from using the Unit for the purposes described in this Lease), such failure to appear or refusal to sign shall be registered in the hand over protocol and the Production and Warehouse Premises and the Office Premises shall be deemed accepted by the Tenant.
- 3.5 If the Unit is not delivered on the Commencement Date, the consequences detailed in Schedule 5 shall apply.
- 3.6 The Tenant will be allowed to access the Unit after the Landlord has completed the construction of the Building, but prior to the Commencement Date and the issuance of the occupancy permit for the Unit exclusively to prepare it for its individual needs (e.g. installation of warehouse racks, mezzanines, conveyors etc.), at its own cost and risk and in the timeline agreed with the Landlord. The Landlord hereby grants its consent for the Tenant's works which will be defined and agreed according to timeline Schedule 5. All other works carried by the Tenant affecting the structure of the Building or the process of obtaining building and occupancy permit require the prior written consent of the Landlord, which shall not be withheld unreasonably. With respect to other works, the Tenant shall notify the Landlord of their scope in advance. Building permission for any such works shall be obtained by Landlord. If such works generated consumption of electricity or other media, the Tenant shall reimburse the Landlord for the cost of such

consumed media. The Tenant shall be under a duty to appoint a licences work supervisor for the duration of the works. All persons employed by the Tenant must obey instructions of the site supervisor. The Tenant shall only be allowed to access the Unit after it has provided the Landlord with copies of insurance policies for all works to be performed and the parent guarantee required in accordance with article 14 of the Lease. Furthermore, depending on the scope of the works to be performed by the Tenant, the Landlord may present the Tenant with its insurance requirements concerning the scope and the limit of cover. In such case the Tenant shall only be allowed to access the Unit after it has presented the Landlord with insurance policies conforming to the Landlord's requirements. The Tenant shall have access to the Building for the purpose of preparing the Unit for its individual needs, which shall take place on October 31st, 2008 at the latest, however the Landlord shall inform the Tenant of the exact date of possible access in a separate notice delivered a week prior to it. From the date of such access until the Commencement Date, the Tenant shall be under a duty to fulfil all its obligations under this Lease and all terms and conditions of this Lease will apply accordingly, whereby rent payable during this period shall constitute the equivalent of the Service Charge and other expenses only incurred by the Landlord during this period for the purpose of allowing the Tenant to access the Unit.

4. **EXTENSION OF LEASE TERM**

- 4.1 The Tenant shall be entitled to demand, at the latest nine months prior to the Expiry Date and the Landlord shall be obliged to conclude upon receipt of such demand, a new lease agreement for a period of 5 years commencing on the Expiry Date on the same terms and conditions as in force at the time this Lease expires, with the exception of the Rent, which shall be negotiated by the Parties in good faith taking into account all financial conditions of this Lease, but shall in no case exceed the market rent for standard warehouse prevailing at that time. The new lease shall include an automatic extension for a subsequent period of 5 years at the terms and conditions of the new lease including the right of the Tenant to demand that a new lease is concluded following the lapse of that 5 year period again on the same terms and conditions and subject to the automatic extension. The Tenant can in each case decide not to extend the term of this or any subsequent lease by giving the Landlord written notice to that effect at the latest six months prior to the expiry date of this or any subsequent lease.

In case of a dispute between the Parties as to the market rent for standard warehouse, such rent shall be determined by an independent licensed and insured real estate surveyor/valuer. In such case the Tenant can also request that the Landlord submits for its review, abstracts of lease agreements concluded by the Landlord for warehouses during the previous year.

5. **THE TENANT'S OBLIGATIONS**

The Tenant hereby undertakes as follows:

5.1 Rent

The Tenant shall pay the Rent on dates and in the manner specified in Schedule 2. The Tenant shall have the right to set off reduce or retain against the rent or any other payments due under this Agreement any of its own claims against the Landlord only in case the Tenant's receivables have been confirmed by a final court order or the Landlord has acknowledged such claim and given consent for set off in writing..

5.2 Paying Service Charges and Expenses

Throughout the Lease Term, the Tenant shall pay the Service Charges and other expenses due hereto on dates, in the amount and in the manner specified in Schedule 2.

5.3 Complying with the statutory requirements

In relation to the use of the Unit and to the exercise of its rights under the Lease, throughout the Lease Term, the Tenant shall:

- (a) comply at its own expense with all relevant laws, and all legal requirements of all competent authorities,

- (b) not do or fail to do anything, or permit any other person to do or fail to do anything which may cause the Landlord to become liable for any penalties, damages, or other costs or expenses, and shall indemnify the Landlord against all consequences of any breach by the Tenant of this obligation.

5.4 Repair and Maintenance

Throughout the Lease Term the Tenant shall:

- (a) maintain the Unit and all devices and equipment therein in good condition and working order allowing their full usage.
- (b) replace all fixtures, fittings and other equipment of the Unit and any components thereof or consumables not listed in Schedule 3 (including equipment belonging to the Tenant) which is damaged, worn out, or otherwise in need of replacement, with new items of the same type and quality, however accepting the normal wear and tear, provided that the Tenant shall also be entitled to replace such fixtures, fittings and other equipment of the Unit for an appropriate substitute subject to always acting in accordance with binding provisions of the law and good construction practice.
- (c) keep the Unit clean and tidy, and shall not keep any rubbish there any longer than is necessary, nor dump it anywhere in the Development other than in the rubbish bins, skips or other containers provided for that purpose in areas designated by the Landlord from time to time.
- (d) not damage any parts of the Building or Unit, and in case of damage it shall repair it immediately at its own expense.

In the case when the Tenant has failed to execute or has inappropriately executed obligations resulting from this item 5.4, the Landlord upon prior setting forth a deadline for proper execution and its ineffective expiry shall be able to carry out all necessary repairs or cleaning at the Tenant's expense. However, if the fact that the obligations mentioned above have not been executed or have been inappropriately executed by the Tenant presents a threat of damage for the Development, Building, Unit, or difficulties for other tenants in the Development, then the Landlord shall be entitled to carry out all necessary repairs or cleaning at the expense of the Tenant without the prior calling to properly execute the obligations.

Notwithstanding the above:

- (i) the Tenant shall not be responsible for any maintenance, repair or replacement of any structural parts of the Building (understood as the exterior walls, the foundations and the roof system only); with the exception of damages caused by the Tenant,
- (ii) the above obligations of the Tenant to do any repairs shall commence upon the expiry of the warranty period for each of the devices and equipment, however the Tenant shall always be under a duty to ensure that such repairs are carried out by the relevant contractor/manufacturer granting the warranty,

The Landlord will obtain a minimum 24 months warranty for all works, Machinery and equipment of the Building and Unit. Warranty periods for all individual elements of the Building and Unit will be indicated in schedule attached to Delivery Protocol. In case of any need to repair, replace or fix any of the above during the initial 24 months or the relevant warranty period if it is longer than 24 months, the Landlord shall ensure that these actions are undertaken by the contractor granting the warranty or by the Landlord and no cost of such actions shall be borne by the Tenant as part of the Service Charge unless the damage has been caused by the Tenant.

5.5 Alterations

At any time the Tenant shall not erect or make (or allow anyone else to do so) any new structure, improvement, alteration, or addition to the Unit, or the Building or the Development, including in particular the parking spaces, or otherwise to change its existing external design or appearance, except in accordance

with plans, drawings and specifications previously submitted to and approved by the Landlord in writing in case of works carried by the Tenant affecting the structure of the Building or requiring obtaining the building and/or the occupancy permit. With respect to other works, the Tenant shall notify the Landlord of their scope in advance. Where Landlord's approval is required such approval shall not be unreasonably withheld and the Landlord shall provide the Tenant with such approval or a justified refusal thereof within 30 days from the Tenant submitting documents described above. All alterations made by the Tenant must comply with the binding provisions of the law, and in particular construction law and construction best practice codes. In the event of any breach of the above provision, the Tenant shall immediately, upon written notice from the Landlord requiring it to do so, reinstate the Unit to its condition before the said breach.

Should the Tenant fail promptly to reinstate the Unit, the Landlord shall be entitled to do so itself, and to charge the cost of such works to the Tenant.

In case of the above alterations the Landlord shall have a right of first refusal to carry out the works - within the scope approved by the Landlord - if the price offered for the works by the Landlord is not higher than the price offered to the Tenant by third-party bona fide external contractors.

5.6 Signs and advertisements

Tenant shall be free to post lighted signs bearing company logo and flags externally in accordance with binding provisions of the law.

5.7 Use of the Production and Warehouse Premises and Office Premises

The Tenant may use the Production and Warehouse Premises for the purpose of manufacturing and warehousing and the Office Premises for office purposes. Any change in the use of the Unit or any part of it by the Tenant shall require the Landlord's prior written consent which shall not be unreasonably withheld.

The Tenant has been involved in the designing of the Unit so that the Unit is prepared to its needs and the Tenant confirms that the Unit meeting the standard described in the Technical Specification attached hereto as Schedule 7 and plans and layouts in Schedule 4 fulfil its requirements with respect to the activity which he plans to undertake in the Unit and in particular in the Production and Warehouse Premises.

5.8 Restrictions on Use

The Tenant shall not bring or allow to be brought onto the Development or into the Building (or to allow them to remain if they are found there) any dangerous or hazardous materials, not included in original occupancy permit whether or not the possession and keeping of which is subject to obtaining special permits under Polish law. The list of dangerous or hazardous materials which the Tenant is entitled to use is included in Schedule .12... In case the Tenant wishes to store, maintain, generate or release any hazardous or other dangerous materials on the Development or in the Building, it shall first provide the Landlord at least 2 weeks in advance with a written notice of the particulars of the envisaged activity in this respect and must obtain a prior consent of the Landlord. Following obtaining the above notice, the Landlord shall be entitled to demand, both prior to granting the consent and at any time during the Lease, that the Tenant provides any requested documents pertaining to such activity of the Tenant in particular documents confirming that the Tenant complies with all applicable provisions of Polish law and disposes of any hazardous substances properly as well as to inspect the Unit in respect of activities connected with such substances upon prior notice to the Tenant. The Tenant shall indemnify the Landlord against all direct and indirect legal and financial consequences of any breach of this provision. In particular, in case the Tenant's activities result in any pollution of the Development, without prejudice to other rights available to the Landlord under Polish law, the Landlord shall be entitled to request that the Tenant removes such pollution at its own cost. Furthermore, in case any of the charges related to the Development or the Building are increased due to such activity or any additional charges or fees are imposed on the Development or the Building or the Landlord as the owner thereof as a result of such activity, the Tenant shall be under a duty to bear such costs as parts of the Service Charge. The obligations contained in this paragraph shall survive the termination of this Lease during the period when the Tenant occupies the Building. Moreover, during the whole Lease period the Landlord shall be authorised to take actions determined in Part III of Schedule 1. The Landlord shall not refuse its consent for change in the use of the Unit provided that the Tenant meets

all legal requirements for such activity, including obtaining appropriate permits (acting upon power of attorney from the Landlord, if necessary) and bears the costs of adapting the Unit to such use (if any).

5.9 Sub-letting, transfer of rights under the Agreement etc.

The Tenant shall not assign, underlet, share, or part with possession or occupation of all or part of the Building without the prior written consent of the Landlord. Permission will not be withheld unreasonably by the Landlord. The Tenant does not need to obtain the above consent for a sublease to an affiliated company.

5.10 Insurance

The Tenant will obtain and keep in force at its own expense (promptly paying all necessary premiums) general civil liability with extension for Tenant's liability (covering losses in real estate property and moveable property, loss or damage to machinery, installations and equipment, boiler, heating, water heating equipment etc.) insurance against third party claims arising from physical injury and property loss or damage with claim limits for each occurrence of not less than the equivalent in Polish Zlotys of EURO 500 000 and the equivalent in Polish Zlotys of EUR 1,000,000 in aggregate subject always to indexation in accordance with the indexation of Rent. If the Tenant conducts any adaptation works (understood as works undertaken by the Tenant following the Commencement Date and falling within the scope of article 5.5 above), it will be required to present the scope of this works and based on this the Landlord will present the Tenant with its insurance requirements. For modernization and/or construction works the Landlord will require the general civil liability policy covering modernization and/or construction activity. In case the Tenant wishes to store, maintain, generate or release any hazardous or other dangerous materials on the Development or in the Building it has to present the civil liability policy with extension for Tenants liability and pollution liability with written confirmation concerning the coverage of activity contacted with storage of hazardous materials with the limit of not less than the equivalent in Polish Zloty of Euro 2,000,000 per occurrence and 3,000,000 in aggregate. Tenant will not undertake actions (or will not allow for actions to be taken) and will not keep (or allowed to be kept) in the Building anything which could violate the terms of the insurance agreements concluded by the Landlord concerning the property, civil liability or the loss of rent (business interruptions) or which could prevent the Landlord from concluding the above mentioned insurance agreements with insurers chosen by the Landlord.

For the Tenant's protection, the Tenant shall maintain insurance at its expense for fire, flood and other perils, theft, loss of revenue and other coverage usually maintained by businesses of this kind in the area in which the Development is located on all of its personal property, including trade fixtures located in the Unit, or on the area designated as the car park. If the Tenant stores in the Unit movables belonging to third parties, it shall cause such third parties to maintain such personal property insurance. The Landlord shall not be held liable for any loss, damages or expenses for actions committed on areas for which the Tenant is responsible for insuring except to the extent that any such loss, damages or expenses are a result of the Landlord's gross negligence or wilful misconduct.

Upon the Landlord's written request, the Tenant shall be under a duty to provide the Landlord with insurance certificates pertaining to the Unit or property held in it or activities undertaken in it.

5.11 Surrender of the Unit

At the latest by midnight on the Expiration Date, the Tenant shall hand over the Unit to the Landlord in such state of repair and condition, and complete with all such fixtures, fittings and other items as is consistent with the Tenant's obligations under this Lease, however, subject to the ordinary wear and tear. The Landlord shall be entitled to request the Tenant to restore the Unit to its state as at the day of delivery to the Tenant, subject to the ordinary wear and tear. In particular, the Tenant shall be obliged to remove from the Unit all its own property and all its own machines, merchandise. Additionally, the Landlord has the right to require that the Tenant complete any works listed in Schedule 10 at its own cost. After the Expiration Date the Tenant shall have no right to occupy the premises mentioned above.

In the event that the Tenant shall not surrender the Unit, then, without prejudice to any other legal remedies available to it, the Landlord shall be entitled to a penalty fee equivalent to two hundred percent (200%) of the monthly Rent in EURO due for the last month of the Lease Term calculated on the per diem

basis. Such contractual penalty shall be charged for each day of unauthorized occupation after the Expiry Date until the Tenant actually vacates the Unit and it shall be payable on each day falling after the day for which it was charged. The Tenant shall be obliged to pay statutory interest for delay in payment of the above penalty starting from the date it becomes due till the date it has been actually paid.

5.12 Interest on overdue payments

If the Tenant shall fail to pay any sums due to the Landlord under this Lease by the due date stipulated herein, or if the Lease shall not stipulate such a date by the date indicated in the payment demand, then the Tenant shall pay statutory interest on such sum to the Landlord at the then applicable rate of statutory interest.

5.13 Complying with regulations

The Tenant shall observe all regulations being effective in the Development, presented in Schedule 6.

5.14 Protection and Information

Upon the Landlord's request, the Tenant shall perform all acts necessary to affirm its obligations under this Lease to any third party purchasing or otherwise acquiring the Building or financing the acquisition.

The Tenant shall, within 14 days following receipt of a request from the Landlord, as well as any existing or potential lender or buyer of the Development, execute and deliver any documents reasonably requested by said parties certifying that this Lease is valid and confirming the essential details of the Lease, in particular the amount of Rent payable. The Tenant will also provide current financial statements and such other information already filed at the National Court Register as may be reasonably requested by said parties.

6. THE LANDLORD'S OBLIGATIONS

The Landlord hereby undertakes to the Tenant as follows:

6.1 Insurance

Subject to any exclusions and limitations imposed by the Landlord's insurers and the prevailing law, the Landlord shall in accordance with the market practice at the time insure itself against loss of rent (business interruptions), civil liability and insure the Unit, the Building and the Development as well as the Machinery (as defined in pt. 5 of the Schedule 3) in their full reinstatement value on normal commercial terms. If it will be lawful to do so the Landlord shall assign all proceeds received from insurance of property to the reconstruction, as far as is possible, of the Unit (excluding Tenant's improvements), the Building and the Development from their destroyed or damaged state and the reinstatement of Machinery.

If anything done or omitted by the Tenant or allowed by the Tenant to be kept on the Building shall cause the rate of the property insurance, the Landlord's civil liability insurance or the loss of rent (business interruptions) insurance to be increased, then the Tenant will pay to the Landlord the amount of any such increase on demand including any broker's fees connected with this, provided that the Landlord previously informed the Tenant about the terms of the above mentioned insurances. The Landlord obliges itself to immediately notify the Tenant about any changes to the terms of the above mentioned Landlord's insurances.

6.2 To provide services

Throughout the Lease Term, to provide directly or indirectly the Services (and in terms of the media to use its best efforts to ensure that such Services are provided by third parties without any interruption) in an efficient and economic manner and in accordance with the principles of good real estate management. The Landlord shall take all reasonable steps to keep to a minimum and to remedy any interruptions or delays in the provision of Services, however the Landlord shall not be liable for any interruptions or delays in connection with the provision of the Services due to circumstances beyond its control. For the avoidance of doubt, the above obligation also includes the duty of the Landlord to ensure that the Building is adequately safeguarded against fire risk as required by Polish law.

The Landlord shall ensure that any repair or refurbishment of the Building is done in a manner that does not interrupt production. The Tenant shall be notified minimum 90 days prior to major works (understood as works on the structural elements of the Building). Works that will influence production shall not be implemented without written consent from the Tenant concerning the time when such works shall be implemented, not to be unreasonably withheld or delayed. The above

stipulations do not apply to situations in which the failure to undertake the repair immediately results in a threat to human life or health.

7. PARTIES' RIGHTS IN CASE OF DEFAULT

- 7.1 The Tenant irrevocably authorizes the Landlord to disconnect service media to the Unit in case of termination of the Lease.
- 7.2 The Landlord shall have the right to terminate this Lease upon written notice to the Tenant if any of the following occur:
- (a) non-payment of the Rent and/or Service Charges or any other due amounts resulting from this Lease for a period of two months, despite the Landlord setting of an additional month deadline for payment to the Tenant;
 - (b) the Tenant uses the Unit in a manner that does not comply with this Lease or the Polish law and in spite of Landlord's written notification of such, Tenant does not stop using the Unit in such a manner within 10 working days from the Landlord's notification;
 - (c) the Tenant does not execute or improperly executes its material obligations stipulated herein, thus neglecting the Unit so as it may incur a damage and shall not comply with such obligation within 10 working days from the receipt of the Landlord's written notice informing the Tenant about the breach requesting the Tenant to comply with its obligation;
 - (d) the Tenant, in spite of the Landlord's written notification of such, Tenant materially or repeatedly violates the regulations or the Development use code and shall not cease such violation within 10 working days from the receipt of the Landlord's written notice informing the Tenant about the breach requesting the Tenant to comply with its obligation;
 - (e) the Tenant does not insure, does not renew or does not maintain valid the insurance mentioned in article 5.10 hereof; and shall not comply with such obligation within 20 working days from the receipt of the Landlord's written notice informing the Tenant about the breach requesting the Tenant to comply with its obligation;
 - (f) the Tenant does not execute or improperly executes the obligations stipulated herein specially items mentioned in section 7.2 and, excluding cases where the Lease provides a shorter terms, does not start to properly execute them within 30 working days upon the Landlord's written notification;
 - (g) the Tenant ceases to pay its liabilities or submits a statement on opening the conciliatory proceedings, or when a motion is submitted to the relevant court for announcement of the Tenant's bankruptcy;
 - (h) in other cases stipulated herein.
- 7.3 The fact of occurring or executing the Landlord's rights resulting from the provisions mentioned above shall not prejudice any other rights or legal actions to which the Landlord is entitled pursuant to this Lease or other regulations.
- 7.4 The Tenant shall have the tight to terminate the Lease upon notification in writing sent to the Landlord in the following cases:
- (a) the defects of the Unit create a danger for the health of the Tenant's employees provided that such defects have not been caused by the Tenant or persons for which the Tenant is responsible and if

such defect is curable the Landlord has not commenced works aiming at its removal within 15 working days upon the Tenant's written notification or within such longer period of time as is necessary taking into account all circumstances of the situation;

- (b) the Tenant has not been able to use the Unit in the current manner for an interrupted period longer than one month due to alterations or refurbishment of the Unit, the Building or the Development, except as for repairs as described in article 8 below, and the Landlord has not taken action to allow the Tenant to use the Unit within 30 days from the Tenant's written notice. The Tenant will be informed in advance of any alternations and refurbishment.
- (c) the Landlord does not execute or improperly executes the obligations stipulated herein and does not start to properly execute them within 30 working days upon the Tenant's written notification,
- (d) the Tenant has not been able to use the Unit due to any reasons not due to the Tenant for 2 weeks and the Landlord has not made the use of the Unit possible within further 2 weeks after receiving notice from the Tenant,
- (e) in accordance with Schedule 5 in instances indicated therein.

7.5 Upon the termination of the Lease by the Tenant in accordance with article 7.4 above, the Tenant shall no longer be under a duty to pay Rent or Service Charge with the exception of payments which were due as of the termination date.

8. **DAMAGE TO THE UNIT**

8.1 If the Unit is damaged by fire, accident or other unavoidable casualty, without the Unit being rendered wholly or partially unsuitable for occupation, the Landlord shall repair such damage and there shall be no abatement of the Rent, provided that the Tenant is still able to make practical use of the entire Unit premises. If, and to the extent that, as a result of such an event, the Unit becomes unsuitable in whole or in part for practical use, the Tenant shall be released from its obligation to pay all or a proportionate part of the Rent until these premises are again fully suitable for use. For the avoidance of doubt it is agreed that, in such circumstances, the Tenant shall be obliged to pay the Rent on the part or parts of the Unit which are suitable for use

8.2 In the event that, during the whole Lease Term, because of an occurrence of force majeure which is not covered by the Landlord's insurance policy, or in any other case the Unit becomes wholly or partly unsuitable for practical use, the Landlord may either (at its own discretion):

- (a) terminate the Lease by giving one month's written notice to the Tenant within thirty (30) days of the event, whereupon the rights and obligations of the Parties (except for the claims having been due) shall expire, and the Tenant shall pay Rent on any part of the Unit which is suitable for use until the date on which it vacates the Unit; or
- (b) repair the damage and decrease the Rent proportionately to the area of the Unit that is unsuitable for practical use until such repairs are completed.

9. **LIMITATION OF LIABILITY**

The Landlord shall be under no liability for, or in connection with, occurrences which are the effect of any accident or damage, nuisance, annoyance or inconvenience which may be caused to the Tenant, its employees or visitors by reason of any act, or default of any other tenant or occupier of any part of the Development or any nearby properties.

Any liability of the Landlord and the Tenant under this Lease shall be limited to the redress of the actual damage caused to the other Party, excluding lost profit or business interruption.

Each of the Parties undertake to assist the other Party in obtaining proper compensation in the event such Party suffers damage by a third party with which the first Party has a contractual relationship.

Both Parties undertake to act in such a manner as to mitigate their damages in the event such damages arise.

10. **Notices**

Unless specifically provided otherwise, all notices and other communications made pursuant to the Lease shall be in writing and shall be deemed to have been duly made by confirmed delivery, or registered mail to the Parties at the following addresses and faxes numbers:

If to the Landlord:

Robert Dobrzycki
PG PL 1 Sp. z o.o.
ul. Emilii Plater 53,
00-113 Warsaw
Tel.: +48 22 540 7171
Fax: +48 22 540 7170

With a copy to:

Lori Bluett
PDC Properties
8395 Jackson Road
Sacramento, CA 95826-3904
USA
Tel.+9163791123
Fax +9163796223

If to the Tenant:

Roman Dyrz
SAUER-DANFOSS Sp. z o.o..
Ul. Metalowcow 31
54-156 Wroclaw
Tel: 71 78 23 610;

The Parties shall inform each other promptly of any changes of address or fax number. Until a change of address is duly reported, letters and faxes delivered to the previous address and fax numbers shall be deemed to have been received in the normal course.

11. **DISPUTES**

If any dispute arises between the Parties as to the interpretation or the legal effect of this Lease, or any of its provisions, such dispute shall be resolved by the Arbitration Court at the National Chamber of Commerce in Warsaw, according to its rules of arbitration prevailing at the time. The language of arbitration shall be English. All attorneys' fees and other costs connected with such dispute shall be borne by the dismissed Party.

12. **VALUE ADDED TAX**

All payments due to be made by the Tenant to the Landlord under the terms of the Lease are exclusive of Value Added Tax ("VAT"), and the sums due shall be increased by the amount of appropriate VAT. References to VAT shall be deemed to include any revised version of VAT, and/or any tax which replaces or supplements VAT.

13. **TRANSFERABILITY OF THE LEASE**

The Landlord shall be entitled to assign its rights and obligations under this Lease, without the Tenant's consent, in particular to a bank or another entity financing or refinancing the acquisition or development of the Building or the Development or any company from the Panattoni group or a purchaser of the Building or the Development.

14. **BANK GUARANTEE**

[intentionally omitted].

15. **CORPORATE WARRANTIES AND PARENT COMPANY GUARANTEE**

15.1 Each of the Parties warrants to the others that it is an entity established and operating in compliance with the law of the Republic of Poland and that the execution of this Lease by persons signing it on their behalf shall create a valid and legally binding commitment to its terms.

15.2 Within 21 days from the signing of this Lease, the Tenant shall provide the Landlord with a guarantee issued by a company dominant with respect to the Tenant, within the meaning of the Code of Commercial Companies and Partnerships in which such company shall undertake to perform all obligations of the Tenants arising under this Lease in case the Tenant defaults in the performance of such obligations and fails to remedy such default within any applicable period of grace. The guarantee shall be valid for the first five years of the Lease Term, the guarantee shall be transferable and in a form substantially as in the Specimen Form of the Parent Company Guarantee in Schedule 8. At least 3 months prior to the lapse of first 5 years of the lease term, the Tenant shall deliver a new parent company guarantee, valid for 5 years and 3 additional months from the Expiry Date and in compliance with the above provisions. The Tenant's failure to deliver the Parent Company Guarantee within the specified time period, including failure to deliver a subsequent Parent Company Guarantee or failure to deliver it in the form prescribed by Schedule 8 shall be deemed a material default under this Lease, entitling the Landlord to terminate this Lease with immediate effect. Any delay in exercising this right shall not give rise to any waiver thereof.

15.3 In case at any time during the Lease Term, the company which has signed the Parent Company Guarantee ceases to be a company dominant with respect to the Tenant, the Landlord shall be under a duty to release such Parent Company Guarantee upon receipt of a new Parent Company Guarantee signed by the new entity controlling the Tenant being in an acceptable financial standing in a form substantially as in the Specimen Fort of the Parent Company Guarantee in Schedule 8.

16. **INTERPRETATION, GOVERNING LAW AND AMENDMENTS TO THE AGREEMENT**

This Lease is governed by the Laws of the Republic of Poland. Any matter not specifically agreed in this Lease shall be governed by the Civil Code. This Lease was made in English. This Lease may only be amended in the form of a writ-ten annex signed by the Landlord and the Tenant.

/s/ Robert Dobrzycki
The Landlord

/s/ Finn Visgaard May 19, 2008
The Tenant

ANNEX 1

Signed on 14.10.2009

TO
LEASE AGREEMENT OF
A WAREHOUSE BUILDING
IN PANATTONI PARK WROCLAW
of 16th May 2008

BY AND BETWEEN
PG PL 1 SP. Z O.O.
and
SAUER-DANFOSS SP. Z O.O.

THIS ANNEX, hereinafter referred to as “Annex”, was executed on 14.10.2009 in Warsaw:

BY AND BETWEEN:

(1) **PG FL 1 SP. Z O.O.** with its registered office in Warsaw, 53 Emilii Plater Street, entered into the Entrepreneurs’ Registered under number KRS 268547, with the initial capital in the amount of PLN 50.000 (say: fifty thousand Polish Zlotys), having tax ID number NIP 525-23-79-467, represented by: Sylwia Wasowska - Proxy, hereinafter referred to as “**PG PL 1**”,

and

(2) **SAUER-DANFOSS Sp. z o.o.**, with its registered office in Wroclaw, 31 Metalowcow Street, entered into the Entrepreneurs’ Registered under number KRS 15311, with the initial capital in the amount of PLN 25,000,000 (say: twenty five million Polish Zlotys), having tax ID number 894-25-83-804, represented by: Mariusz Król - Director of Operations, hereinafter referred to as “**SAUER-DANFOSS**”,

hereinafter jointly referred to as “**Parties**”.

Whereas:

- (a) on 16th May 2008 SAUER-DANFOSS entered into a lease agreement with PG PL 1 for warehouse and office premises in the building known as Panattoni Park Wroclaw logistic centre located in Bielany Wroclawskie, Wroclaw,
- (b) The Parties have agreed to introduce the amendments to the Agreement to the extent of Leased Area and monthly payable amount per square meter of Additional Rent.

NOW, THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS:

1. INTERPRETATION

In this Annex, all capitalised words and terms shall have the meanings assigned to them in the Agreement, unless the Annex provides otherwise.

2. AMENDMENTS TO THE LEASE

The Parties hereby change the following provisions of the Agreement in the manner specified below.

2.1. In article 2 point 2.2. of the Agreement shall have the following new wording:

“The Parties agree that for the purpose of calculating the Rent and the Services Charges, the Rentable Area of the Production and Warehouse Premises shall be 18 500. sq.m. and the Rentable Area of the Office Premises shall be 2099 sq.m., whereby 1213 sq. m. of the Office Premises will be located on the ground floor and 886 sq. m. of the Office Premises will be located on the first floor of the Building.”

2.2. In Schedule 2 of the Agreement shall have the following new wording:

“The Rent shall be paid monthly in Polish Zlotys in an amount of: 3.99 EURO per square meter as Base rent and 1.77 Euro as Additional Rent; Both Base and Additional Rent in the amount of 5.76 Euro per square meter of the Rentable Area of the Production and Warehouse Premises and in Polish Zlotys in an amount equivalent to 7,15 EURO per square meter of the Rentable Area of the Office Premises. From the Commencement Date the Tenant shall make rent payment. The Rent shall be payable monthly current month plus 45 days from the date when the Landlord issues VAT invoice to the Tenant. For the period of six and a half months from the Lease Commencement Date the Tenant shall make a single rent payment in

the amount equivalent to one month Base Rent for office, warehouse and production space. This payment shall be made in the first month of the lease.

3. FINAL PROVISIONS

- 3.1 The remaining provisions of the Lease remain unchanged.
- 3.2 The annex becomes effective on 16th May 2008.
- 3.3 Two English language counterparts of this Annex have been signed, one being assigned for each of the Parties.
- 3.4 The provisions of the Civil Code shall apply to all matters not regulated by this Annex.

On Behalf of PG PL 1:

/s/ Sylwia Wasowska
Sylwia Wasowska
Prokurent

14.10.2000
PG PL 1 Sp. z o.o.
ul. Emilil Plater 53
00-113 Warszawa
NIP 525-237-94-67, REGON 147038869

On behalf of SAUER-DANFOSS:

/s/ Mariusz Król
SAUER-DANFOSS Sp. z o.o.
PROKURENT
Mariusz Król



SAUER
DANFOSS

Sauer-Danfoss Sp. z o.o.
ul. Matalowców 31, 54-156 Wrocław
tel.: (+71) 78 23 600 fax: (+71) 78 23 601
NIP: 894-25-83-804

(t)

ANNEX 2

Signed on 28.10.2009

TO

LEASE AGREEMENT OF
A WAREHOUSE BUILDING
IN PANATTONI PARK WROCLAW

of 16th May 2008

BY AND BETWEEN

PG PL 1 SP. Z O.O.

and

SAUER-DANFOSS SP. Z O.O.

THIS ANNEX, hereinafter referred to as "Annex", was executed on 28.10.2009 in Warsaw:

BY AND BETWEEN:

(1) **PG PL 1 SP. Z O.O.** with its registered office in Warsaw, 53 Emilii Plater Street, entered into the Entrepreneurs' Registered under number KRS 268547, with the initial capital in the amount of PLN 50.000 (say: fifty thousand Polish Zlotys), having tax ID number NIP 525-23-79-467, represented by: Sylwia Wasowska - Proxy, hereinafter referred to as "**PG PL 1**",

and

(2) **SAUER-DANFOSS Sp. z o.o.**, with its registered office in Wroclaw, 31 Metalowców Street, entered into the Entrepreneurs' Registered under number KRS 15311, with the initial capital in the amount of PLN 25,000,000 (say: twenty five million Polish Zlotys), having tax ID number 894-25-83-804, represented by: Mariusz Król - Director of Operations, hereinafter referred to as "**SAUER-DANFOSS**",

hereinafter jointly referred to as "**Parties**".

Whereas:

- (a) on 16th May 2008 SAUER-DANFOSS entered into a lease agreement with PG PL 1 for warehouse and office premises in the building known as Panattoni Park Wroclaw logistic centre located in Bielany Wroclawskie, Wroclaw,
- (b) The Parties have agreed to introduce the amendments to the Agreement to the extent of Leased Area and monthly payable amount per square meter of Additional Rent.

NOW, THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS:

1. INTERPRETATION

In this Annex, all capitalised words and terms shall have the meanings assigned to them in the Agreement, unless the Annex provides otherwise.

2. AMENDMENTS TO THE LEASE

The Parties hereby change the following provisions of the Agreement in the manner specified below.

2.1. In article 2 point 2.2. of the Agreement shall have the following new wording:

"The Parties agree that for the purpose of calculating the Rent and the Services Charges, the Rentable Area of the Production and Warehouse Premises shall be 18 500. sq.m. and the Rentable Area of the Office Premises shall be 2179 sq.m., whereby 1213 sq. m. of the Office Premises will be located on the ground floor and 966 sq. m. of the Office Premises will be located on the first floor of the Building."

2.2. Schedule 4 - the layout of additional Office Premises attached to this annex shall be added to Schedule 4.

3. FINAL PROVISIONS

3.1 The remaining provisions of the Lease remain unchanged.

3.2 The annex becomes effective on 1st January 2010.

3.3 Two English language counterparts of this Annex have been signed, one being assigned for each of the Parties.

3.4 The provisions of the Civil Code shall apply to all matters not regulated by this Annex.

On behalf of PG PL 1:

On behalf of SAUER- DANFOSS:

[ILLEGIBLE]

28/10/2009

SAUER-DANFOSS Sp. z o.o.

PROKURENT

/s/ Mariusz Król

Mariusz Król

Rental agreement**1. Landlord**

Limited company Grundstenen 114927 (uät SKR Släggan AB), org.no 556720-8805, c/o NCC Construction Sverige AB, Vallgatan 3, 170 80 Solna (Landlord) when the building is finished.

2. Tenant

Sauer-Danfoss (Älmhult) AB, org.no 556496-9177, Stålgatan 1, 343 34 Älmhult (Tenant)

3. Object

All buildings and all land within property Älmhult Släggan 3 and plus eventually settled land, and plants, installations, equipment and decoration as will be the result with the carry out of the contract program with NCC Construction Sverige AB (Property). Contract program should be an appendix to this agreement (Contract program) Appendix 1.

4. Rented buildings, size and scope

The rented buildings size, position and scope of the total rented area is clear of the contract program.

I eventual changes of buildings, area and standards etc according to contract program as of the tenants prescribed changes- and additional work effect total production cost according to Contract program should the rental fee change according to: of additional costs should these be turned over to rental fee with translation 8%. Leaving costs should be deducted on rental fee with 8%. Those changes and additional work should be approved by Landlord and Tenant jointly and in writing. In such written approval should the parts inform and approved the new re-calculated rental fee as of increase/decrease of costs.

5. Usage of the object

The object should be used for the Tenants business that is development, testing and manufacturing of electronic products.

6. The objects condition, administration and maintenance

The object refers to new build premises and is hired in the condition as stated in the Contract program. The Tenant is responsible for the objects all administration- and maintenance costs, both indoor and outdoor. This means the Tenant is responsible for all caring, all maintenance and all changes that are necessary during rental time. The Tenant should together with the Landlord make maintenance plans, who should be carried out on the Tenants expense. Would it not be possible for the parts to agree about the content in the maintenance plan should the plan be stated of an expert that is appointed together of the parts. Is it not possible for the parts to agree about this expert could one of

the parts ask "Stockholms Handelskammare" Stockholm chamber of commerce appoint expert. The tenant should pay the expense for this expert. The Landlord should once a year be given opportunity to self or by representative inspect the object in purpose to keep himself updated in respect of the objects condition.

In case of the Tenant not follow the maintenance plan or on other case not maintain the object in a way that could cause the landlord damage, has the landlord the right to on the Tenants expense self make necessary measure. Such measure should be done within the rules regarding as example for information and deadlines.

7. Rental time

Admission time has been decided to 2008-04-01

Rental time is fifteen (15) years from admission time

The Tenant obliges to, without demands of reduction of rental fee or damage approve the constructor to carry out actions or inspection observations. In cases of faults or delays in construction according to Contract Program cause the Tenant obstacles, disadvantages or damages should the Landlord superintend the eventually penalties that could obtain from the Landlord, from third party according to Contract Program be paid direct to the Tenant. Above this should the Tenant not have right to compensation for shortages or delays in the construction according to Contract Program.

The tenant should above this approve the arrangements, adjustments, painting work and similar to be done after start of usage of the object. The Landlord should in connection with the mentioned work pay attention to security aspects in connection to the tenants business. This work should if possible be finished when the tenant taken possession of the object and carry on with the business in the rented building.

8. Notice of termination and lengthening of contract

Notice of termination of this contract should be done in writing at least 18 months before the agreed rental time close. If notice of termination not is done within prescribed time should the contract be extended with not change of conditions in successive five year periods with the same time for notice of termination.

9. Renal fee, payment

Rental fee should be paid from the day of possession. Base rental fee is 3 700.000 kronor and should to 100% be adjusted upwards with changes for KPI (consumer price index — total index with 1980 as base). Base should be the index for October month 2007. This mean addition to base rental fee should follow with a certain percentage as follows.

Should the index any of following month of October has increased in relation to base index, should addition follow with the percentage with the index change in

relation to base index. Further on should the addition come out from index changes, as from the rental fee changes be calculated as of the base of the percentage change from base index and the index in respective October months. The rental fee should never be lower than the base rental fee and if the change of KPI is below 1,5%, should the rental fee even though increase with 1,5% yearly. The rental change should always start from the 1st January after October index has resulted in re-calculation.

Example for calculation:

Calculate the difference between current October index and base index. If the difference is positive should the calculated difference be divided with the base index. The quota that becomes the result should be multiplied with the base rental fee and this calculation would give the additional rental fee for the year.

To the base rental fee come additions according to this agreement.

Payment period is every calendar quarter (every third month). Current rental fee should be advised by the landlord at least 30 days before due payment day. The rental fee should be at the landlord no later than the last workday before every payment period beginning. The rental fee should be paid in advance.

Year 15 of the rental period should the tenant in addition pay a one time amount corresponding base rental fee for year 15 (adjusted upwards with KPI as above) and 1 500 000 kronor (together "removal compensation"). The removal compensation should be paid no later than the last work day of the rental period and be invoiced by the landlord no later than 30 days before rental period ending.

The landlord obliges to offer the tenant lengthening of the contract on the same conditions in at least five years after the rental period ending. Of tenant before end of period choose to accept this offer of lengthening should no removal compensation be issued. The tenant dispose herewith independent over the possibility to lengthening the agreement with no change of conditions and with that not be obliged to removal compensation.

10. Real estate tax

If real estate tax should be paid for the property should the tenant as additional to the rental fee in paragraph 9 pay on the objects share on every occasion real estate tax. The object share is 199%.

11. Unforeseen expenses

Should after the contract signed unforeseen expenses occur for the object on reason of:

- A introduction or change of special for the property tax, fee or duty from parliament, government or other authority resolved or
- B rebuilding or similar on the object as the landlord is command to make from the reason of the tenants activities in the building as of decision of parliament, government or township or authority

Should the tenant from cost change set in pay compensation to the landlord on for the objects share of the total yearly cost change for the property. The compensation is to be compared with on all conditions with rental fee and should be paid according to rules of payment of rental fee. It is to the landlord to openly account for the reasonability to the tenant and in those cases the cost change take with decrease of costs for the landlord put on credit the tenant the cost decrease.

Re-building activities according to b) above should according to time, costs and methods be accounted to the tenant and total costs, time plans and rental fee changes should be agreed before start. The tenant has no right to decrease of rental fee for such disadvantage or obstacle in the usage as normal follow of from landlords re-building activities.

12. Interest, collection letters

With late rental payment should the tenant pay, interest according to interest law and compensation for written collection letter according to the law about collection of debts. Compensation for reminder will be with amount as with all occasions should be according to ordinance of compensation of collection costs.

13. VAT

The rental is within VAT rules. The tenant is appropriated noticed that the landlord will registration for VAT for the actual rental according to the regulations for VAT. Has this been through and do the rental stop fully or partly to be within VAT rules should if the reason is to the tenant the tenant pay to the landlord the amount as the landlord according to the VAT regulations should pay to the government and is to be assignable the object and keep the landlord without debt.

14. Transfer and grant in second hand

The tenant is not allowed without written approval from the landlord to transfer or grant in second hand make available the rental right to the property or part of.

The tenant is in agree with rental in second hand of the object unintended rent tribunal agreement only is to be done to tenant who manage VAT business in the object.

15. Expansion or rebuilding

The landlord is positive to cooperate to expansion and/or rebuilding is to be done on the property. In case the Tenant wish an expansion and/or rebuilding should

the tenant not later than three (3) months before the desired realization in writing send to the Landlord an inquiry and necessary documentation to allow the Landlord to take decision

If the Landlord not has the possibility to cooperate to such activity and the activity not mean any decrease of value of the property could the tenant alone make the current expansion or rebuilding. If the tenant make the change alone have the tenant at move the right to either (i) leave the building as in the possession of the landlord should be the building and could be of use for other tenant then the Tenant and then go to the landlord and eventually compensation should be paid to the tenant as of this paragraph item 3 below, or (ii) remove the expansion/re-building and restore the building to the same status as before the expansion/re-building and repair eventually damages on the building that has become from the removal.

If the tenant when removal leave the building and this go to the landlord according to this paragraph 15 item 2 (i) above should the landlord pay market compensation for the building as of following. Compensations should only come if the landlord makes a rental agreement regarding the building within one year after the tenant's removal and the building according to one of the parts in common appointed claims assessor follow that the landlord received higher rental fee according to the new agreement. The compensation that should be paid to the tenant should correspond to the higher rental fee the landlord received according to the claim assessor's opinion, though at most an amount corresponding to the buildings book value at the time of the tenants remove. If the parts not are able to agree about the claim assessors as of this paragraph 15 has the part to as to Stockholm chamber of commerce to appoint such claim assessor, The tenant should pay for the claim assessor.

16. General agreement

1. The parts should keep each other informed about changes in organization as change or owners (paragraph 14) or authorization to sign for the company. If the tenant not in writing gives notice other is the address below the address that the landlord should send the tenant notice of termination and messages according rental state.

Sauer-Danfoss (Älmhult) AB
Stålgatan 1
343 34 Älmhult
2. The tenant does not have the right to have deduction of rental fee for obstacle in usage of the object as of the landlord make the object as agreed or for the tenant (as described in paragraph 6) make maintenance of the object

- 3 In case of tenant wish the landlord to make re-building or changes in the object should the landlord oblige the tenants wishes due to the parts agree about costs alternative adjustment of rental fee as of this.

The landlord has the right to refuse to make re-building and changes only if the work gives essential inconvenience for the landlord or is made in opponent to current building and security rules or collective contract.
- 4 It is to the tenant on own responsibility and expense make the measures as after moving in from insurance company or environmental- and reason of health, fire protection or other authorities demand or could come to demand to be able to use the object as of concern. From the time to the entrance is the contract valid. The tenant should consult with the landlord before any actions are taken.
- 5 The landlord should in good time (not later then one month) before moving out call one for the tenant and landlord common inspection of the object. With the view of the condition that is acceptable with respect to the objects condition on entrance day, time of rental and the plans for maintenance that has been made should the objects actual condition be judged and documented in notes. The inspection should be signed by both parts and all divergences from acceptable condition should of the tenant be done something about before moving out.
- 6 With moving out or after should, if not other has been agreed, investment in the building that has been paid of the tenant go to the landlord if the landlord not ordered the tenant to remove the asset and restore the building. The tenant has always the right and duty to remove of the tenant belonging asset and restore the building.
- 7 The tenant has the right to after the landlords written approval add outdoor arrangements as front sign, sun blinds, antennas etc. It is to the tenant to get necessary approvals from authorities. The landlord has the right to deny the tenant to add necessary arrangements only if the work gives an essential disadvantage for the landlord.
- 8 The landlord release himself from the duty to fulfill his part of the agreement and from obligation to pay damages if his undertaking not at all or only to abnormal high expense can be fulfilled as of war or riot, as of strike, blockade, fire, explosion or interference from authorities as the landlord not could counsel or foresee.
- 9 The landlord has no responsibility for the tenant for obstacles in the usage of the object that comes from circumstance the landlord not has influence for. As such obstacle means also obstacle to use the building as of prohibition or action from authorities as of tenant or the business of the tenant. Obstacle for usage as of above circumstances will not mean freeing for the tenants obligation for rental fee payment or other obligations within this agreement.
- 10 The tenant is obliged to within the object keep necessary equipment for fire protection and life saving in fire or other accident. The tenant is obliged to take the actions within the object as needed for prevent fire and limit damages as of fire. The landlord has duty to document fire protection

actions within the building and report to community fire protection authority. The tenant has from this the duty to not later than two weeks from entrance day every year 1 June to the landlord and two weeks after request give a written documentation over the tenant's fire protection. The documentation should have the content as of the state "räddningsverks allmänna råd" and comments for systematic fire protection work.

- 11 The tenant is responsible for only for all by law and/or other suggested regulations as of the usage of the building for the business. The tenant should keep the landlord indemnify for what the landlord could be forced to give as of the tenants not fulfill obligations. The tenants obligations should contain also "företagsbot" fees, fines and penalties that could come to landlord as of owner of the property.
- 12 The tenant is responsible for all business related damages on the property as not would be normal wearing and caused by tenants personnel and/or visitors or other as has been allowed entrance to the property (not the landlords personnel or from the landlord applied personnel) in case this damages not enclosed by the landlords insurance. This responsibility enclose also damage on parts that enclose of tenants responsibility for maintenance and change of the damage come from causing from tenant of other as of tenants responsibility. It is the tenant to make announcement to insurance company in case of damage and to landlord.
- 13 It is to the tenant to observe what needed for good order and good condition within the building and fulfill instructions of order and other obligations as from time to other is instructed general or special for the usage of the building.1

17 Insurance

The landlord makes sure that insurance regarding the property is signed in a Swedish insurance company and the insurance is kept during the rental period. The tenant should, in addition to rental fee pay the landlords all insurance premium according insurance during rental period. The landlord should alone be entitled to collect given insurance compensation. The tenant should pay excess in cases of damage made of tenant or someone within the tenant's responsibility. As of damage included in insurance should the tenant pay the landlord excess, though at most 30 BB, if the damage is included of tenant's responsibility as of no 16 and no 11 above.

18 Conditions

This agreement is to be valid dependent of

The Landlord no later than 2007 has an agreement with NCC Construction Sverige AB regarding carrying through the contract program and

The Landlord not later then acquires and entered upon the property Älmhult Släggan 3.

19 Dispute

Disputes as of this agreement should be handled by common court.

For this agreement is above mentioned regulations and what sanctioned by 12 chapter “jordabalken” (rental law)

This contract has been made in two copies whom the parts has one each.

Stockholm May 2007

Älmhult May 2007

Aktiebolaget Grundstenen 114927

Sauer-Danfoss (Älmhult) AB

For the full carry out of Sauer-Danfoss (Älmhult) ABs commitment according to this agreement do Sauer-Danfoss Holding ApS guarantee as of own debt.

Sauer-Danfoss Holding ApS guarantees, as for its own debt, the accurate fulfillment of any and all of Sauer-Danfoss (Älmhult) AB:s obligations under this Lease Agreement

Nordborg on May 2007
Sauer-Danfoss Holding ApS

Aufhebungsvertrag**Termination Agreement**

zwischen

between

Herrn **Hans Cornett**, Gamle Kongevej 58,
DK-6200 Aabenraa, Danmark

Mr **Hans Cornett**, Gamle Kongevej 58,
DK-6200 Aabenraa, Denmark

und

and

Sauer-Danfoss GmbH & Co. OHG,
Krokamp 35, D-24539 Neumünster, Germany

Sauer-Danfoss GmbH & Co. OHG,
Krokamp 35, D-24539 Neumünster, Deutschland

- nachfolgend auch "**Sauer-Danfoss**" genannt —

- hereinafter referred to as "**Sauer-Danfoss**" —

Vorbemerkung:

Herr Cornett ist seit dem 1. März 1976 für die Sauer-Danfoss Gruppe tätig. Grundlage des Anstellungsverhältnisses war zuletzt der Anstellungsvertrag zwischen Herrn Cornett und der Sauer-Danfoss GmbH & Co. OHG vom 12. Dezember 2008 einschließlich der Anlage 1 zu diesem Vertrag vom 12. Dezember 2008. Die Parteien sind überein gekommen, das Anstellungsverhältnis ohne Verschulden einer der Parteien einvernehmlich zu beenden.

Dies vorausgeschickt, vereinbaren die Parteien was folgt:

§ 1**Beendigung des Anstellungsverhältnisses**

- (1) Sauer-Danfoss und Herr Cornett sind sich darüber einig, dass das zwischen Ihnen bestehende Anstellungsverhältnis ohne Verschulden einer der Parteien mit Ablauf des 31.07.2010 enden wird.

Preliminary Remark:

Mr Cornett has worked for the Sauer-Danfoss group since 1 March 1976. The current employment relationship was based on the contract between Mr Cornett and Sauer-Danfoss GmbH & Co. OHG of 12 December 2008 including the appendix 1 to this contract of 12 December 2008. The parties have agreed to end the employment relationship without fault by either one of the parties by mutual agreement.

Therefore, the parties agree the following:

§ 1**Termination of Employment**

- (1) Sauer-Danfoss and Mr Cornett agree that the employment relationship shall terminate upon at midnight on 31 July 2010 without fault by either one of the parties.

- (2) Zwischen den Parteien besteht Einvernehmen, dass mit der Beendigung des Anstellungsverhältnisses zwischen den Parteien auch keine weiteren Anstellungsverhältnisse mit Sauer-Danfoss verbundenen Unternehmen, insbesondere mit Sauer-Danfoss Inc., mehr bestehen. Sollten solche Anstellungsverhältnisse noch bestehen, werden sie mit Abschluss dieser Vereinbarung beendet. Sauer-Danfoss ist insofern zur Abgabe aller für eine Beendigung der Anstellungsverhältnisse notwendigen Willenserklärungen auch für verbundene Unternehmen, insbesondere für die Sauer-Danfoss Inc., ermächtigt.
- (3) Herr Cornett wird mit Wirkung zum Ablauf des 31.12.2009 sämtliche Ämter und Mandate, die er im Auftrag und Interesse von Sauer-Danfoss wahrgenommen hat, insbesondere "Executive Vice President" und "Chief Marketing Officer" der Sauer-Danfoss Inc., niederlegen. Kopien der dementsprechend abzugebenden Erklärungen hat Herr Cornett Sauer-Danfoss unverzüglich zuzuleiten.

§ 2 Vergütung

- (1) Herr Cornett erhält monatlich bis zum Vertragsende seine festen monatlichen Bezüge in Höhe von EUR 21.000,00 brutto.
- (2) Weitergehende Zahlungsansprüche von Herrn Cornett oder Ansprüche auf Sonderleistungen — gleich welcher Art — bestehen weder gegenüber Sauer-Danfoss noch gegenüber mit Sauer-Danfoss verbundenen Unternehmen, insbesondere nicht gegenüber der Sauer-Danfoss Inc. Der Aufhebungsvertrag wirkt insofern als Vertrag

- (2) The parties agree that when the relationship between them ends there shall no longer be any further employment relationships with any affiliates of Sauer-Danfoss, in particular with Sauer-Danfoss Inc. Any such employment relationships which may still exist shall end on conclusion of this agreement. Sauer-Danfoss is authorised to make any declarations of intent, including declarations of intent on behalf of affiliates, in particular Sauer-Danfoss Inc., which are required to end the employment relationships.
- (3) Mr Cornett shall resign from all offices and mandates which he has held on behalf and in the interest of Sauer-Danfoss, in particular "Executive Vice President" and "Chief Marketing Officer" at Sauer-Danfoss Inc., with effect from 31 December 2009. Mr Cornett shall provide Sauer-Danfoss with copies of all declarations which he is required to make in this connection without undue delay.

§ 2 Remuneration

- (1) Mr Cornett shall receive his fixed emoluments of monthly EUR 21,000.00 gross until the contract ends.
- (2) Mr Cornett shall not be entitled to any further payments over and above these or to special benefits of any type whatever either from Sauer-Danfoss or any of Sauer-Danfoss' affiliates, in particular Sauer-Danfoss Inc. In this respect, this Termination Agreement has the effect of an agreement benefiting a third party. In particular he shall have no bonus entitlement either for

zu Gunsten Dritter. Insbesondere bestehen keine Bonusansprüche, weder für vergangene Jahre noch für die Jahre 2009 und 2010. Ebenso wenig bestehen Ansprüche aus dem Long Term Incentive Plan für leitende Angestellte nach dem Sauer-Danfoss Inc. Omnibus Incentive-Plan.

§ 3 Abfindung

- (1) Sauer-Danfoss zahlt Herrn Cornett als Ausgleich für den Verlust der Anstellung eine einmalige Abfindung in Höhe von EUR 105.000,00 (in Worten: einhundertfünftausend Euro) brutto.
- (2) Der Anspruch auf Abfindung entsteht mit Abschluss dieses Vertrages und ist sofort vererblich. Die Abfindung wird im July 2010 nach Maßgabe der dann gültigen steuerlichen und sozialversicherungsrechtlichen Vorgaben zur Auszahlung gebracht. Die auf die Abfindung anfallenden Steuern sind von Herrn Cornett zu tragen.
- (3) Etwaige durch Tarifvertrag oder Sozialplan geregelte Abfindungen oder sonstige Entlassungsentschädigungen oder etwaige Nachteilsausgleichsansprüche, die Herr Cornett wegen der Beendigung des Anstellungsverhältnisses geltend macht, werden auf die vorstehend geregelte Abfindung angerechnet.

§ 4 Ordnungsgemäße Weiterarbeit

Herr Cornett verpflichtet sich, bis zur Freistellung nach nachstehendem § 5 dieser Vereinbarung ordnungsgemäß und unter Einhaltung der

past years or for 2009 and 2010. Nor shall he have any entitlements under the Long Term Incentive Plan for executive employees under the Sauer-Danfoss Inc. Omnibus Incentive-Plan.

§ 3 Severance Payment

- (1) As compensation for the loss of his employment Sauer-Danfoss shall pay Mr Cornett a one-off severance payment of EUR 105,000.00 (in words: one hundred and five thousand euros) gross for the loss of his job.
- (2) The entitlement to severance payment shall arise on conclusion of this agreement and is immediately heritable. Payment shall be made in July 2010 subject to the tax and social insurance requirements which prevail at that time. The taxes due on the severance payment shall be borne by Mr Cornett.
- (3) Any severance payments regulated by any applicable collective bargaining agreement or social compensation plan, other compensation for dismissal or claims for compensation for disadvantages suffered that Mr Cornett claims on the grounds of termination of his employment relationship shall be deducted from the above severance payment.

§ 4 Maintenance of Work Standards

Until such time as he is released from his work duty subject to § 5 of this Termination Agreement Mr Cornett shall perform properly the work duties set out

geltenden Gesetze seine vertraglich geschuldeten Dienste für Sauer-Danfoss zu erbringen.

§ 5 Freistellung

Herr Cornett wird mit Wirkung ab dem 01.01.2010 von der Pflicht zur Arbeitsleistung unter Fortzahlung der vereinbarten Vergütung gemäß § 2 dieser Vereinbarung freigestellt. Die Freistellung erfolgt unwiderruflich unter Abgeltung sämtlicher noch offener Resturlaubsansprüche und künftiger Urlaubsansprüche, die Herrn Cornett bis zur Beendigung des Anstellungsverhältnisses noch zustehen, sowie etwaiger Zeitguthaben und Überstunden, die damit erledigt sind. Das während der Vertragsdauer geltende Wettbewerbs- und Abwerbverbot sowie die Anrechnung anderweitigen Verdienstes gemäß § 615 S. 2 BGB bleiben auch während der Freistellung aufrechterhalten.

§ 6 Recht zur vorzeitigen Vertragsauflösung

- (1) Herr Cornett ist berechtigt, das Arbeitsverhältnis vorzeitig vor dem 31.07.2010 durch einseitige Erklärung gegenüber Sauer-Danfoss zu lösen, frühestens jedoch mit Wirkung zum Ablauf des 31.12.2009. Die Erklärung muss schriftlich gegenüber Sauer-Danfoss unter Einhaltung einer Ankündigungsfrist von mind. 14 Tagen zum Monatsende erfolgen.
- (2) Für den Fall der vorzeitigen Auflösung des Arbeitsverhältnisses wird die Abfindung gemäß § 3 Abs. 1 dieses Aufhebungsvertrages brutto um denjenigen Betrag erhöht, den Herr Cornett ohne die vorzeitige Auflösung des Arbeitsverhältnisses gemäß § 2 Abs. 1 Satz 1

in his contract for Sauer-Danfoss in compliance with applicable laws.

§ 5 Release From Duties (Garden Leave)

Mr Cornett shall be released from his obligation to perform his contractual duties with effect from 1 January 2010 and shall continue to receive the remuneration pursuant to § 2 of this Agreement. He shall be released from such duties with irrevocable effect, taking all outstanding leave entitlement and future leave entitlement which he would be entitled to until the end of the employment relationship, including any time credits and overtime, which shall thus be deemed settled. The non-compete and non-solicitation clauses which apply for the term of the Agreement and § 615 sentence 2 of the German Civil Code (*Bürgerliches Gesetzbuch*) shall continue to apply while Mr Cornett is released from his work duties.

§ 6 Right to premature termination of agreement

- (1) Mr Cornett is entitled to terminate the employment relationship prematurely before 31 July 2010 by unilateral declaration vis-à-vis Sauer-Danfoss, but not before midnight on 31 December 2009. The declaration shall be made in writing to Sauer-Danfoss observing a notice period of at least 14 days to the end of a month.
- (2) If the employment relationship is terminated prematurely the severance payment in accordance with § 3 (1) of this termination agreement shall be increased by that gross amount which Mr Cornett would have received in accordance with § 2 (1) sentence 1 in the period between the premature termination of the contract and 31

dieses Aufhebungsvertrages in der Zeit zwischen der vorzeitigen Vertragsbeendigung und dem 31.07.2010 erhalten hätte.

§ 7

Herausgabe des Dienstwagens

- (1) Herr Cornett ist berechtigt, den ihm überlassenen Dienstwagen bis zum 31.12.2009 weiter nach Maßgabe der geltenden Nutzungsbestimmungen zu benutzen.
- (2) Herr Cornett verpflichtet sich, den Dienstwagen nebst Fahrzeugpapieren, Schlüsseln und sonstigem Zubehör spätestens am 31.12.2009 an Sauer-Danfoss an deren Firmensitz in Neumünster zurückzugeben. Zurückbehaltungsrechte sind ausgeschlossen.

§ 8

Herausgabe von Gegenständen

- (1) Herr Cornett verpflichtet sich, auf Verlangen unverzüglich, spätestens am Tage der Vertragsbeendigung, alle sich noch in seinem Besitz befindlichen oder ihm von Sauer-Danfoss überlassenen Gegenstände von Sauer-Danfoss, mit Sauer-Danfoss verbundenen Unternehmen, sowie deren Kunden, insbesondere Urkunden, Drucksachen, Daten und Datenträger, Aufzeichnungen, Notizen, Entwürfe, sowie sämtliche Abschriften, Pausen und Durchschläge solcher Unterlagen, Muster, Werbe- und Büromaterial vollständig an Sauer-Danfoss an deren Firmensitz in Neumünster zu übergeben. Dabei sichert Herr Cornett zu, etwaige Daten nur mit schriftlicher Zustimmung von Sauer-Danfoss zu löschen. Auch etwaige Kopien dürfen nur mit Zustimmung von Sauer-Danfoss erstellt oder gelöscht werden. Herr Cornett wird

July 2010 had the employment relationship not been terminated prematurely.

§ 7

Return of Company Car

- (1) Mr Cornett shall be entitled to continue using the company car provided to him in accordance with the applicable conditions of use until 31.12.2009.
- (2) Mr Cornett undertakes to return the company car, including papers, keys and all other accessories, to Sauer-Danfoss on 31 December 2009 at the latest at its place of business in Neumünster. There shall be no rights of retention.

§ 8

Return of Items

- (1) Mr Cornett agrees to return in full to Sauer-Danfoss at its place of business in Neumünster any property of Sauer-Danfoss, its affiliates and its customers, including but not limited to deeds, printed matter, data and data media, recorded matter, notes, drafts, and all copies, blueprints and carbon copies of such documents, samples, advertising and office materials, which are still in his possession or which were provided to him by Sauer-Danfoss, on request immediately but no later than the date on which his contract ends. Mr Cornett warrants that he will delete any data with the written approval of Sauer-Danfoss only. Copies may only be made or deleted with the consent of Sauer-Danfoss. Mr Cornett shall provide Sauer-Danfoss on request immediately but on the last day of work before being released from duties, with a list of all passwords, write-protect codes or similar access codes which he has used for the computers in the company. He

Sauer-Danfoss auf Verlangen unverzüglich, spätestens aber am letzten Arbeitstag vor der Freistellung eine Aufstellung aller Passwörter, Schreibschutzcodes oder ähnlicher Zugangscodes, die auf die von ihm im Betrieb genutzten PCs verwendet hat, zur Verfügung stellen. Ein Zurückbehaltungsrecht besteht nicht.

shall have no right of retention.

- (2) Herr Cornett sichert zu, dass sich auf privaten EDV-Anlagen oder Datenträgern keine Firmendaten von Sauer-Danfoss oder mit Sauer-Danfoss verbundenen Unternehmen, insbesondere Kunden- und Preislisten mehr befinden. Sollte Herr Cornett noch über Unterlagen oder Daten, welche geschäftliche oder betriebliche Angelegenheiten von Sauer-Danfoss oder mit Sauer-Danfoss verbundenen Unternehmen betreffen, verfügen, so wird Herr Cornett diese Unterlagen und Daten unverzüglich an den jeweils Betreffenden, d.h. entweder an Sauer-Danfoss oder an mit Sauer-Danfoss verbundene Unternehmen, herausgeben und anschließend diese Daten auf privaten Datenträgern löschen.

- (2) Mr Cornett warrants that he no longer has any Sauer-Danfoss` or its affiliates` data, in particular, no customer and price lists, on his private computer systems or data carriers. If Mr Cornett still has documents or data concerning business or company matters of Sauer-Danfoss or its affiliates, he shall return such documents and data to the party concerned, i.e. either to Sauer-Danfoss or companies affiliated with, without undue delay and then delete such data from his private data carriers.

§ 9 Reisekosten

Herr Cornett reicht alle noch offenen Reisekosten bis spätestens 31.01.2010 ein. Die Auszahlung der Herrn Cornett vertragsgemäß zustehenden Reisekosten durch Sauer-Danfoss erfolgt unter Anrechnung eines etwaigen Reisekostenvorschusses. Weitere Reisekosten werden nicht erstattet.

§ 9 Travel Expenses

Mr Cornett shall submit all outstanding travel costs incurred on or before 31 January 2010. Any advance granted on travel expenses shall be deducted from any travel expenses to be paid to Mr Cornett by Sauer-Danfoss under his contract. No further travel expenses shall be reimbursed.

§ 10 Geheimhaltung

Herr Cornett wird auch nach Beendigung des

§ 10 Confidentiality

Even after termination of his employment, Mr

Anstellungsverhältnisse alle ihm im Rahmen seiner Tätigkeit zur Kenntnis gelangten vertraulichen geschäftlichen Angelegenheiten und Vorgänge von Sauer-Danfoss und der mit Sauer-Danfoss verbundenen Unternehmen sowie von deren Kunden geheimhalten.

§ 11
Nachvertragliches Wettbewerbsverbot /
Abwerbeverbot

Die Parteien vereinbaren, dass das in § 15 des Anstellungsvertrages vom 12. Dezember 2008 geregelte nachvertragliche Wettbewerbsverbot sowie das in § 16 des Anstellungsvertrages vom 12. Dezember 2008 geregelte Abwerbeverbot aufrecht erhalten bleiben.

§ 12
Zeugnis

Herr Cornett erhält ein wohlwollendes, qualifiziertes Schlusszeugnis. Auf Verlangen wird ihm ein Zwischenzeugnis ausgestellt.

§ 13
Outplacement-Service

- (1) Sauer-Danfoss wird ein von Herrn Cornett auszuwählendes Personalberatungsunternehmen mit der Erbringung eines Outplacement-Service beauftragen, durch den für Herrn Cornett schnellstmöglich eine neue adäquate Stellung gefunden werden soll und die Kosten für diesen Outplacement-Service bis zu einem Maximalbetrag von EUR 20.000,00 zzgl. Mehrwertsteuer übernehmen. Darüber hinausgehende Kosten gehen zu Lasten von Herrn Cornett. Etwaige anfallende Lohnsteuer wegen eines geldwerten Vorteils

Cornett shall hold in confidence all confidential business matters and procedures relating to Sauer-Danfoss, companies affiliated with it and their customers of which he has gained knowledge in the course of his work.

§ 11
Post-contractual Prohibition on Competition /
Enticement

The parties agree that the post-contractual prohibition on competition pursuant § 15 of the Employment contract dated 12 December 2008 and the prohibition of solicitation pursuant § 16 of the Employment contract dated 12 December 2008 shall continue to apply

§ 12
Letter of Reference

Mr Cornett shall receive a favourable qualified final reference. On request he will be issued with an intermediate reference.

§ 13
Outplacement-Service

- (1) Sauer-Danfoss shall instruct a personnel recruitment company selected by Mr Cornett to perform an outplacement service to find a suitable new position for Mr Cornett as soon as possible and shall bear the costs of this outplacement service up to a maximum amount of EUR 20,000.00 plus VAT. Any costs over and above this shall be borne by Mr Cornett. Any income taxes due to a monetary benefit resulting of Sauer-Danfoss bearing the costs of the outplacement service shall be borne by Mr Cornett. If Mr Cornett does not use the outplacement service his severance payment pursuant to § 3 of

aus der Übernahme der Kosten des Outplacement-Service durch Sauer-Danfoss ist von Herrn Cornett zu tragen. Nimmt Herr Cornett den Outplacement-Service nicht in Anspruch, so erhöht sich seine Abfindung nach § 3 dieses Vertrages um den Betrag von EUR 20.000,00 brutto.

- (2) Der Outplacement-Service gemäß Abs. 1 muss spätestens innerhalb von 60 Tagen nach der Beendigung des Anstellungsverhältnisses in Anspruch genommen werden und muss bis spätestens zum 31.12.2010 abgeschlossen sein. Wählt Herr Cornett statt dem Outplacement-Service den Anspruch auf Erhöhung der Abfindung gemäß vorstehendem Abs. 1, so muss der Anspruch bis spätestens zur Beendigung des Anstellungsverhältnisses schriftlich bei Sauer-Danfoss geltend gemacht werden.
- (3) Macht Herr Cornett den Anspruch auf Erhöhung der Abfindung nach Abs. 1 nicht spätestens bis zur Beendigung des Arbeitsverhältnisses schriftlich gegenüber Sauer-Danfoss geltend, so verfällt der Anspruch. Nimmt Herr Cornett den Outplacement-Service gemäß Abs. 1 nicht spätestens innerhalb von 60 Tagen nach Beendigung des Anstellungsverhältnisses in Anspruch, so verfällt der Anspruch.

§ 14

Vorbereitung der Steuererklärung

Sauer-Danfoss übernimmt die Kosten eines Steuerberaters für die Erstellung der Einkommenssteuererklärungen von Herrn Cornett für die Jahre 2009 und 2010. Die Auswahl und Beauftragung des Steuerberaters erfolgen ausschließlich durch Sauer-Danfoss. Etwaige

this agreement shall increase by a gross amount of EUR 20,000.00.

- (2) Use shall be made of the outplacement service referred to in (1) within 60 days after the employment relationship has ended and shall be completed by 31 December 2010 at the latest. Should Mr Cornett choose to claim the increase in the severance payment pursuant to (1) above instead of the outplacement service such claim must be asserted in writing vis-à-vis Sauer-Danfoss by the end of the employment relationship at the latest.
- (3) If Mr Cornett does not assert the claim to the increase in severance payment pursuant to (1) in writing vis-à-vis Sauer-Danfoss by the end of the employment relationship, this entitlement shall lapse. If Mr Cornett does not use the outplacement service pursuant to (1) within 60 days after the employment relationship has ended, this entitlement shall lapse.

§ 14

Tax Return Preparation Services

Sauer-Danfoss shall assume the costs for a tax adviser to prepare the income tax returns of Mr Cornett for 2009 and 2010. Sauer-Danfoss alone shall select and instruct the tax adviser. Any wage taxes which are due owing to a non-cash benefit from the assumption of the costs shall be borne by Mr Cornett.

anfallende Lohnsteuern wegen eines geldwerten Vorteils aus der Kostenübernahme sind von Herrn Cornett zu tragen.

§ 15
Betriebliche Altersversorgung

Herr Cornett hat eine unverfallbare Anwartschaft auf Leistungen der betrieblichen Altersversorgung erworben, über deren Höhe Sauer-Danfoss nach Beendigung des Anstellungsvertrages eine entsprechende Auskunft erteilen wird.

§ 16
Rechtliche Hinweise

- (1) Herr Cornett wurde darauf hingewiesen, dass verbindliche Auskunft über die sozialversicherungsrechtlichen Auswirkungen dieses Aufhebungsvertrages, insbesondere hinsichtlich möglicher Nachteile beim Bezug von Arbeitslosengeld, nur die zuständigen Sozialversicherungsträger und die zuständige Agentur für Arbeit erteilen. Hinsichtlich der steuerrechtlichen Folgen dieser Vereinbarung kann verbindliche Auskünfte nur das zuständige Finanzamt erteilen. Herr Cornett ist vor Unterzeichnung dieser Vereinbarung Gelegenheit zur Einholung entsprechender Auskünfte bei den Sozialversicherungsträgern, der Agentur für Arbeit sowie dem zuständigen Finanzamt eingeräumt worden. Sauer-Danfoss übernimmt keine Haftung für etwaige nachteilige sozialversicherungs- oder steuerrechtliche Folgen dieser Vereinbarung für Herrn Cornett.
- (2) Sauer-Danfoss hat Herrn Cornett darauf hingewiesen, dass er nach § 2 Abs. 5 Nr. 2

§ 15
Company Pension Plan

Mr Cornett has acquired a non-forfeitable entitlement to benefits under the company pension plan; after the employment contract has ended Sauer-Danfoss will provide details on the amount of such entitlement.

§ 16
Comments on the Legal Aspects of this Termination Agreement

- (1) Mr Cornett has been notified of the fact that reliable information on the social security law consequences of this Termination Agreement, in particular, with regard to possible disadvantages in respect of entitlement to unemployment benefits, can only be obtained from the competent social security institutions and the competent Agency for Employment. With regard to the tax consequences of this Agreement, reliable information can only be obtained from the competent finance office (tax authority). Prior to signing this Agreement, Mr Cornett was given an opportunity to obtain the relevant information from the social security institutions, the Agency for Employment and the competent finance office. Sauer-Danfoss shall not assume liability for any disadvantageous consequences of this Agreement for Mr Cornett in terms of social security or tax law.
- (2) Sauer-Danfoss has notified Mr Cornett that he is obliged under § 2 (5) No. 2 of the Third Book of the German Social Code (*Sozialgesetzbuch III*) to begin seeking alternative employment himself

SGB III verpflichtet ist, bereits in der Zeit bis zur tatsächlichen Beendigung des Anstellungsverhältnisses eigenverantwortlich nach einer neuen Beschäftigung zu suchen. Herr Cornett wurde außerdem darauf hingewiesen, dass er gemäß § 38 SGB III verpflichtet ist, sich spätestens drei Monate vor Beendigung des Anstellungsverhältnisses persönlich bei der Agentur für Arbeit arbeitsuchend zu melden. Liegen zwischen der Kenntnis des Beendigungszeitpunktes und der Beendigung des Anstellungsverhältnisses weniger als drei Monate, hat die Meldung innerhalb von drei Tagen nach Kenntnis des Beendigungszeitpunkts zu erfolgen. Herr Cornett wurde dabei darüber aufgeklärt, dass im Falle einer Verletzung der vorgenannten Mitwirkungspflichten Nachteile hinsichtlich des Anspruchs auf Arbeitslosengeld drohen, insbesondere die Verhängung einer Sperrzeit wegen verspäteter Arbeitsuchendmeldung und damit ein Ruhen des Anspruchs auf Arbeitslosengeld für die Dauer der Sperrzeit.

§ 17 Erledigungsklausel

Die Parteien sind sich einig, dass mit vorstehenden Regelungen sämtliche gegenseitigen Ansprüche aus dem Anstellungsverhältnis und seiner Beendigung, gleich aus welchem Rechtsgrund, seien sie bekannt oder unbekannt, geregelt und ungeregelte Ansprüche erledigt sind. Dasselbe gilt für Ansprüche im Zusammenhang mit dem Anstellungsverhältnis und seiner Beendigung. Hiervon erfasst sind auch sämtliche, etwaigen Ansprüche von Herrn Cornett gegen Unternehmen, die mit Sauer-Danfoss verbunden sind, insbesondere gegenüber der Sauer-Danfoss Inc. Umgekehrt werden auch sämtliche etwaigen Ansprüche von Unternehmen, die mit Sauer-

during the time before the employment relationship actually ends. Mr Cornett has also been notified that he is obliged under § 38 of the Third Book of the German Social Code to report to the Agency for Employment in person registering availability for employment within three months before the end of the employment relationship. If more than three months lie between his becoming aware of the date of termination of the employment relationship and the end of the employment relationship, he must report to the Agency for Employment within three days of his becoming aware of the date of termination of the employment relationship. Mr Cornett has been informed of the fact that any breach of the cooperation duties specified above might result in disadvantages in respect of entitlement to unemployment benefits, in particular, in imposition of a blocking period due to delayed reporting of registering availability for employment and thus in suspension of the entitlement to unemployment benefits during the blocking period.

§ 17 Settlement of Mutual Claims

The parties agree that through the above provisions all mutual claims arising from the employment relationship and its termination, irrespective of their legal grounds, whether known or unknown, are regulated or such which are not regulated will be settled. This shall also apply to claims related to the employment relationship and its termination. This also includes any claims which Mr Cornett may have against affiliates of Sauer-Danfoss, in particular Sauer-Danfoss Inc. Conversely this also includes any claims that affiliates of Sauer-Danfoss may have against Mr Cornett. In this respect Sauer-Danfoss is also acting as the representative of these companies.

Danfoss verbunden sind, gegen Herrn Cornett erfasst. Insoweit handelt Sauer-Danfoss auch in Vertretung für diese verbundenen Unternehmen.

§ 18
Schriftformerfordernis/Nebenabreden

Mündliche Nebenabreden zu diesem Vertrag wurden nicht getroffen. Änderungen und Ergänzungen dieses Vertrages, einschließlich dieses Schriftformerfordernisses selbst, bedürfen zu ihrer Wirksamkeit konstitutiv der Schriftform.

§ 19
Rechtswahl/maßgebliche Vertragsfassung

- (1) Dieser Aufhebungsvertrag unterliegt ausschließlich deutschem Recht.
- (2) Dieser Aufhebungsvertrag wurde sowohl in einer deutschsprachigen als auch in einer englischsprachigen Fassung geschlossen. Sollten über den Inhalt oder die Auslegung dieses Aufhebungsvertrages zwischen den Parteien Streitigkeiten entstehen, ist allein die deutsche Fassung dieses Aufhebungsvertrages maßgeblich.

§ 20
Salvatorische Klausel

Sollte eine Bestimmung dieses Vertrages ganz oder teilweise unwirksam sein oder werden oder sollte sich eine Lücke herausstellen, wird hierdurch die Wirksamkeit des Vertrages im Übrigen nicht berührt. Anstelle der unwirksamen Bestimmung und zur Ausfüllung von Lücken soll eine angemessene Regelung gelten, die, soweit rechtlich möglich, dem am nächsten kommt, was die Parteien nach Sinn und Zweck des Vertrages gewollt haben oder gewollt haben würden, sofern sie diesen Punkt bedacht hätten.

§ 18
Written Form/Side Agreements

No oral side agreements supplementing this Agreement have been concluded. Amendments and additions to this Agreement, including this written form requirement itself, must be in written form (on paper and signed) to have constitutive effect.

§ 19
Choice of Law/Definitive Version of Agreement

- (1) This Termination Agreement shall be governed exclusively by German law.
- (2) This Termination Agreement has been concluded both in German and in English. Should any disputes arise among the contracting parties concerning the substance or the construal of this Termination Agreement, only the German version of this Termination Agreement shall be definitive.

§ 20
Severability Clause

Should individual provisions of this Agreement be or become invalid in whole or in part, or should it be discovered that there has been an omission, this shall not affect the validity of the remaining provisions of this Agreement. In lieu of the invalid provision or to fill an omission, an appropriate provision shall apply that, to the extent legally possible, reflects as closely as possible the essence and purpose of this Agreement as intended by the parties or as the parties would have intended if they had considered this aspect.

, den 21/10/2009

/s/ Thomas Kaiser

Thomas Kaiser
Sauer-Danfoss GmbH & Co. OHG

, den 23/10/2009

/s/ Hans Cornett

Hans Cornett

, den 23/10/2009

/s/ Sven Ruder

Sven Ruder
Sauer-Danfoss Inc.

SAUER-DANFOSS
Change in Control Agreement
Charles K. Hall

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Change In Control Agreement

THIS CHANGE IN CONTROL AGREEMENT (the "Agreement") has been entered into this 8th day of March, 2004 (the "Effective Date") between Sauer-Danfoss (US) Company Inc. (the "Company"), and **Charles K. Hall** (the "Employee").

A consolidation of business entities has been taking place on a global basis, including entities engaged in the Company's industry. The Board of Directors of the Company (the "Board") recognizes that the possibility of a Change In Control (as such term is defined in Section 2 herein) of the Company exists and that such possibility, and the uncertainty and questions which it necessarily raises among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Accordingly, the Board has determined to take appropriate steps to reinforce and encourage the continued attention and dedication of members of the Company's management team, including the Employee, to their assigned duties while minimizing the natural distractions presented by the possibility of a Change In Control of the Company.

In order to induce the Employee to remain in the employ of the Company, or any of its subsidiaries or affiliated or related entities or joint ventures and in consideration of the Employee's agreements set forth in Sections 5, 6, 7 and 8 it is mutually agreed as follows:

1. Agreement Period. The initial term of this Agreement shall commence as of the Effective Date, and shall expire, subject to the earlier termination of the Employee's employment as hereinafter provided, on December 31, 2004. The initial term of this Agreement automatically shall be extended for one (1) additional year at the end of the initial term and then again after each successive year thereafter. However, either party may terminate this Agreement at the end of the initial term or at the end of any successive year thereafter by giving the other party written notice of intent not to renew, delivered on or prior to September 30, 2004, or September 30 of any successive year.

In the event such notice of intent not to renew is properly delivered by either party, this Agreement, along with all corresponding rights, duties, and covenants, shall automatically expire at the end of the initial term or the successive year then in progress, as the case may be.

However, regardless of the above, if at any time during the term of this Agreement, a Change In Control of the Company occurs, then this Agreement shall be extended and become immediately irrevocable for a period of two (2) years from the date of the Change In Control (the "Protection Period"), except as provided in the following paragraph.

The foregoing notwithstanding, in the event that at any time (including, without limitation, during the Protection Period) (a) the Company terminates the Employee's employment for Cause (as such term is defined in Section 4(a) herein), or (b) the Employee terminates his employment with the Company without Good Reason (as such term is defined in

Section 4(b) herein), all provisions of this Agreement shall terminate, and, without limiting the generality of the foregoing, the Company shall have no obligation to make the payments or provide the benefits set forth in Section 2; provided, however, that the provisions of Sections 5, 6, 7, 8, 9 and 18 shall survive such termination.

2. Change In Control.

(a) **Definition of “Change In Control.”** “Change In Control” of the Company means, and shall be deemed to have occurred upon any of the following events:

(i) Any person or entity (other than those persons and/or entities in control of the Company as of the Effective Date, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or a corporation or other entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company) becomes the beneficial owner, directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company’s then outstanding securities; provided, however, that a change in control shall not result from (a) Danfoss A/S, as defined below, acquiring securities of the Company from the Murmann Group, as such term is defined below, either directly, or indirectly by acquiring voting control of Danfoss Murmann Holding A/S or its successor; or (b) the Murmann Group acquiring securities of the Company from Danfoss A/S either directly or indirectly by acquiring voting control of Danfoss Murmann Holding A/S or its successor; or

(ii) During any period of two (2) consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (and any new Director, whose election by the Company’s stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was so approved), cease for any reason to constitute a majority thereof; or

(iii) The stockholders of the Company approve: (A) a plan of complete liquidation of the Company; or (B) the sale or disposition of all or substantially all of the Company’s assets; or (C) a merger, consolidation, or reorganization of the Company with or involving any other corporation, other than a merger, consolidation, or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization.

However, in no event shall a Change In Control be deemed to have occurred, with respect to the Employee, if the Employee is part of a purchasing group which consummates the Change In Control transaction. The Employee shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Employee is an equity participant in the purchasing company or group (except for (i) passive ownership of less than one percent (1%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change In Control by a majority of the non-employee continuing Directors).

For purposes of (b)(i) of this Section 2, (A) Danfoss A/S shall be deemed to mean any or more of Danfoss A/S, any of its subsidiaries or related or affiliated companies or joint ventures, or any successor of the foregoing; and (B) the Murmann Group shall be deemed to mean any one or more of (i) Klaus Murmann, (ii) any member of his immediate family, (iii) any entity a majority of the voting interests of which are owned, directly or indirectly, by Klaus Murmann and/or any member or members of his immediate family, or (iv) trust, a majority of which is owned by, or a majority of the beneficiaries of which consist of, directly or indirectly, Klaus Murmann, and/or any member or members of his immediate family.

(b) Employment Terminations After a Change in Control. During the term of this Agreement, in the event the Employee's employment with the Company is terminated within the Protection Period, unless such termination is (i) by the Company for Cause (as the term Cause is defined in Section 4(a) herein), (ii) by reason of Death, Disability, or Retirement, or (iii) by the Employee without Good Reason (as the term Good Reason is defined in Section 4(b) herein), then the Company shall pay to the Employee and provide him with the following:

(i) A lump-sum cash amount equal to the Employee's unpaid base salary in effect on the date of termination of employment, accrued vacation pay, unreimbursed business expenses, and all other items earned by and owed to the Employee through and including the date of termination (in full satisfaction for these amounts owed to the Employee).

(ii) A lump-sum cash amount equal to the product of the Employee's Target Incentive Opportunity, established under the Annual Management Performance Incentive Plan, or a successor plan thereto (the "Annual Incentive Plan"), for the plan year in which the Employee's termination occurs, multiplied by a fraction (the numerator of which shall be the number of whole months worked by the Employee during the Company's fiscal year in which Employee's employment is terminated and the denominator of which shall be the number 12). This payment will be in lieu of any other payment to be made to the Employee under the Annual Incentive Plan for the plan year in which Employee's termination occurs.

(iii) A lump-sum payment in cash equal to the Employee's annual base salary and Target Incentive Opportunity under the Annual Incentive Plan in effect on the date of Employee's termination.

(iv) A lump-sum cash amount equal to 10% of the Employee's then current annual base salary in lieu of health, dental, long-term disability, and life insurance continuation. The Employee's participation in these and all other similar benefits shall cease upon the termination of Employee's employment with the Company under circumstance which entitle the Employee to the payments set forth in this Section 2(b).

The parties agree that, in the event of the termination of Employee's employment with the Company under circumstances which entitle the Employee to the payments set forth in this Section 2(b), such payment and benefits (including an Excise Tax Payment provided in Section 2(c) herein) shall be deemed to constitute liquidated damages payable by the Company to the Employee in full satisfaction of the Company's obligations hereunder or otherwise, and the Company agrees that the Employee shall not be required to mitigate his damages by seeking other employment or otherwise.

In the event that the Employee's employment with the Company is terminated under circumstances which entitle the Employee to the payments set forth in this Section 2(b) (whether by the Company or by the Employee), the Termination Date shall be no earlier than 30 days following the date on which a notice of termination is delivered by one party to the other.

Notwithstanding the foregoing, the payments provided for in this Section 2 shall be reduced by the amount of any payments to which the Employee is otherwise entitled to receive upon termination of employment with the Company pursuant to any employment agreement or any laws or rules or regulations of any governmental agency.

The parties also agree that, in the event of a termination of employment that obligates the Company to make the payments set forth in this Section 2, the provisions in Sections 5, 6, 7, 8, and 18 herein shall survive such termination.

(c) **Excise Tax Payment.** In the event that any portion of the severance benefits or any other payment under this Agreement or under any other agreement with or plan of the Company (in the aggregate "Total Payments") would constitute an "Excess Parachute Payment," such that an "Excise Tax" is due, the Company shall provide to the Employee, in cash, an additional payment in an amount to cover the full cost of the excise tax and the Employee's state and federal income and employment taxes on this excise tax payment (and to cover the resulting excise and income and employment taxes resulting from such payment, and so on). For this purpose, the Employee shall be deemed to be in the highest marginal tax rate. This payment shall be made as soon as possible following the date of the Employee's qualifying termination, but in no event later than thirty (30) calendar days of such date.

For purposes of this Agreement, the terms “Excise Tax” and “Excess Parachute Payment” shall have the meanings assigned to such terms in Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended.

(d) Subsequent Recalculation. In the event the Internal Revenue Service subsequently adjusts the excise tax computation herein described, the Company shall reimburse the Employee for the full amount necessary to make the Employee whole (less any amounts received by the Employee that the Employee would not have received had the computations initially been computed as substantially adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

3. Definition of Company. Whenever this Agreement refers to the Employee’s employment with the Company, or the termination of the Employee’s employment with the Company, the term “Company” shall include any of its subsidiaries or affiliated or related entities or joint ventures that employ the Employee. In addition, when used in Sections 5, 6, 7 and 8, of this Agreement, the term “Company” shall include Sauer-Danfoss Inc. and any of its subsidiaries or affiliated or related entities or joint ventures.

4. Definition of “Cause” and “Good Reason.”

(a) For purposes of this Agreement, “Cause” means: (i) the willful failure of the Employee to perform his material duties with the Company as provided in this Agreement, and which failure is not cured (if capable of cure) within 15 days after receipt by the Employee of written notice from the Company of such failure, which notice identifies the manner in which the Employee has willfully failed to perform, (ii) the engaging by the Employee in willful conduct which is demonstrably injurious to the Company, monetarily or otherwise, (iii) the conviction (treating a nolo contendere plea as a conviction) of the Employee of any crime or offense constituting a felony (whether or not any right to appeal has been or may be exercised), or (iv) a failure by the Employee to comply with any material provision of this Agreement, which failure is not cured (if capable of cure) within 15 days after receipt by Employee of written notice from the Company of such non-compliance by the Employee. For purposes of clauses (i) and (ii) of this definition, action or inaction by the Employee shall not be considered “willful” unless done or omitted by him (A) intentionally or not in good faith and (B) without reasonable belief that his action or inaction was in the best interest of the Company, and shall not include failure to act by reason of total or partial incapacity due to physical or mental illness.

(b) For purposes of this Agreement, “Good Reason” means without the Employee’s written consent: (i) a material adverse alteration in the nature or status of the Employee’s position, duties, responsibilities or authority which is inconsistent with those in effect as of the Change in Control; (ii) a material reduction in the Employee’s Base Salary or level of employee benefits in effect as of the Change of Control (other than across-the-board reductions applied similarly to all of the Company’s senior employees); (iii) the relocation of the Employee’s principal place of employment more than 50 miles from its location as of the Change in Control, without the Employee’s written consent, except for required travel on the Company’s business; or

(iv) a failure by the Company to comply with any material provision of this Agreement, which failure is not cured (if capable of cure) within 15 days after receipt by the Company of written notice from the Employee of such non-compliance by the Company.

5. Covenant Not to Compete. Without the consent of the Company, the Employee shall not, directly or indirectly, anywhere in the world, at any time during the Employee’s employment with the Company and for a period of eighteen (18) months following the termination of Employee’s employment with the Company for any reason, be associated or in any way connected as an owner, investor, partner, director, officer, employee, agent, or consultant with any business entity directly engaged in the manufacture and/or sale of products competitive with any material product or product lines of the Company; provided, however, that the Employee shall not be deemed to have breached this undertaking if his sole relation with such entity consists of his holding, directly or indirectly, an equity interest in such entity not greater than two percent (2%) of such entity’s outstanding equity interest, and the class of equity in which the Employee holds an interest is listed and traded on a broadly recognized national or regional securities exchange. For purposes hereof, the term “material product or product line of the Company” shall mean any product or product line of the Company or any of its subsidiaries, the consolidated gross sales of which during any calendar year during the five (5) year period preceding the termination of Employee’s employment with the Company were at least \$10 million.

The Employee acknowledges that: (a) the services performed by him for the Company are of a special, unique, unusual, extraordinary, and intellectual character; (b) the business of the Company is worldwide in scope and its products are marketed throughout the world; (c) the Company competes with other businesses that are or could be located in any part of the world; and (d) the provisions of this Section 5 are reasonable and necessary to protect the Company’s business.

If any covenant in this Section 5 is held to be unreasonable, arbitrary, or against public policy, such covenant will be considered to be divisible with respect to scope, time, and geographic area, and such lesser scope, time, or geographic area, or all of them, as a court of competent jurisdiction may determine to be reasonable, not arbitrary, and not against public policy, will be effective, binding, and enforceable against the Employee.

The period of time applicable to any covenant in this Section 5 will be extended by the duration of any violation by the Employee of such covenant.

The Employee will, while the covenants under this Section 5 are in effect, give notice to the Company, within ten days after accepting any other employment, of the identity of the Employee's employer. The Company may notify such employer that the Employee is bound by this Agreement and, at the Company's election, furnish such employer with a copy of this Agreement or relevant portions thereof.

6. Disclosure of Confidential Information. Without the consent of the Company, the Employee shall not disclose to any other person Confidential Information (as defined below) concerning the Company or the Company's trade secrets of which the Employee has gained knowledge during his employment with the Company. Any trade secrets of the Company or any of its subsidiaries or related or affiliated companies or joint ventures will be entitled to all of the protections and benefits under the Iowa Code Annotated Section 550.1 through 550.8 and any other applicable law. If any information that the Company deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. The Employee hereby waives any requirement that the Company submit proof of the economic value of any trade secret or post a bond or other security. None of the foregoing obligations and restrictions apply to any part of the Confidential Information that the Employee demonstrates was or became generally available to the public other than as a result of a disclosure by the Employee.

The Employee will not remove from the premises of the Company (except to the extent such removal is for purposes of the performance of the Employee's duties at home or while traveling, or except as otherwise specifically authorized by the Company), any document, record, notebook, plan, model, component, device, or computer software or code, whether embodied in a disk or in any other form, that contains Confidential Information (collectively, the "Proprietary Items"). The Employee recognizes that, as between the Company and the Employee, all of the Proprietary Items, whether or not developed by the Employee, are the exclusive property of the Company. Upon termination of this Agreement by either party, or upon the request of the Company during the Employment Period, the Employee will return to the Company all of the Proprietary Items in the Employee's possession or subject to the Employee's control, and the Employee shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items.

For purposes of this Agreement, Confidential Information shall include any and all information concerning the business and affairs of the Company, including, without limitation, product specifications, data, know-how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current, and planned research and development, current and planned distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures, and architectures (and related formulae, compositions, processes, improvements, devices, know-how, inventions, discoveries, concepts, ideas, designs, methods and information), historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, agents, personnel training and techniques and materials, insurance products, premium structures, information relating to suppliers and supplies, sales and marketing information and strategy, notes, analysis, compilations, studies, summaries, and other material prepared by or for the Company containing or based, in whole or in part, on any information

included in the foregoing, and any information, however documented, that is a trade secret within the meaning of the Iowa Code Annotated Section 550.1 through 550.8.

7. Developments. During the course of employment with the Company, Employee may conceive enhancements to the products manufactured or sold by the Company or may conceive new products which perform functions similar to products manufactured or sold by the Company or may conceive other new products related to the business of the Company or may develop ideas, plans and opportunities. Employee shall disclose promptly and fully to the Company any and all ideas, business developments, plans and opportunities, new products or systems, inventions, discoveries, enhancements and improvements (“Developments”), whether or not patentable or subject to copyrights, conceived or made by Employee during the time of the Employee’s employment, during work hours or otherwise and on the Company’s premises or otherwise. Employee recognizes that pursuant to this arrangement that the Company may develop a new product that generates widespread market appeal.

Employee agrees that all Developments shall be the sole property of the Company and Employee hereby assigns to the Company, without further compensation, all of his right, title, and interest in and to such Developments and any and all related patents, patent applications, copyrights, copyright applications, trademarks, and trade names in the United States and elsewhere. Employee shall assist the Company in obtaining and enforcing patent, copyright, and any other forms of legal protection for the Developments in any country. Upon request, Employee will sign all applications, assignments, instruments and papers to perform all acts necessary or desired by the Company to assign all such Developments completely to the Company and to enable the Company, its successors, assigns and nominees, to secure and enjoy the full and exclusive benefits and advantages thereof. Employee will not, at any time, either during the term of this Agreement or thereafter, disclose to others, or use for his own benefit or the benefit of others, any of the Developments. Employee agrees that the enhancement and development of all Developments capable of copyright protection is “Work for Hire” within the meaning of the Copyright Act of 1976. These obligations shall continue beyond the termination of Employee’s employment with the Company with respect to Developments, whether patentable or not, conceived or made by Employee during his employment with the Company, and shall be binding upon Employee’s assigns, personal representatives, administrators and other legal representatives.

8. Nonsolicitation. Without the written consent of the Company, the Employee shall not at any time during the Employment Period and for a period of eighteen (18) months following the termination of Employee’s employment with the Company for any reason (a) employ or retain or arrange to have any other person, firm, or other entity employ or retain or otherwise participate in the employment or retention of any person who is an employee or consultant of the Company; or (b) solicit or arrange to have any other person, firm, or other entity solicit or otherwise participate in the solicitation of business from any entity that was a customer of the Company during the time of the Employee’s employment, whether or not the Employee had personal contact with such customer.

9. Injunctive Relief and Additional Remedy; Essential and Independent Covenants.

(a) The Employee acknowledges that the injury that would be suffered by the Company as a result of a breach of the provisions of this Agreement (including any provision of Sections 5, 6, 7 and 8) would be irreparable and that an award of monetary damages to the Company for such a breach would be an inadequate remedy. Consequently, the Company will have the right, in addition to any other rights it may have, to obtain injunctive relief to restrain any breach or threatened breach or otherwise to specifically enforce any provision of this Agreement and the Company will not be obligated to post bond or other security in seeking such relief. Without limiting the Company's rights under this Section 9 or any other remedies of the Company, if the Employee breaches any of the provisions of Sections 5, 6, 7 and 8, the Company will have the right to cease making any payments otherwise due to the Employee under this Agreement.

(b) The covenants by the Employee in Sections 5, 6, 7 and 8 are essential elements of this Agreement, and without the Employee's agreement to comply with such covenants, the Company would not have entered into this Agreement with the Employee. The Company and the Employee have been afforded the opportunity to consult their respective counsel and have been advised, or had the opportunity to obtain advice, in all respects concerning the reasonableness and propriety of such covenants (including, without limitation, the time period of restriction and the geographical area of restriction set forth in Section 5), with specific regard to the nature of the business conducted by the Company and its subsidiaries and related or affiliated companies or joint ventures. The Employee's covenants in Sections 5, 6, 7 and 8 are independent covenants and the existence of any claim by the Employee against the Company under this Agreement or otherwise, will not excuse the Employee's breach of any covenant in Sections 5, 6, 7 and 8.

If this Agreement or the Employee's employment with the Company expires or is terminated, this Agreement will continue in full force and effect as is necessary or appropriate to enforce the covenants and agreements of the Employee in Sections 5, 6, 7, 8 9 and 18.

10. Severability. It is the desire and intent of the parties that this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision or portion of this Agreement shall be adjudicated to be invalid or unenforceable, this Agreement shall be deemed amended to delete there from the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made.

11. Withholding. Any other provision of this Agreement notwithstanding, the Company may withhold from amounts payable under this Agreement (a) all federal, state, local and foreign taxes and social security taxes that are required to be withheld by applicable laws or

regulations as the Company shall determine in its sole discretion, and (b) other ordinary and customary payroll deductions.

12. Notices. All notices, requests, consents and other communications provided for in this Agreement shall be in writing and shall be given by hand delivery or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Sauer-Danfoss Inc.
2800 East 13th Street
Ames, IA 50010
Attention: Vice President-Human Resources

If to the Employee, to his residence address set forth on the records of the Company, or to such other address as either party furnishes to the other in writing in accordance with this Section 12. All such notices shall be effective when actually received by the addressee.

13. Governing Law. This Agreement shall be deemed to have been executed in Ames, Iowa and shall be governed by and construed and enforced in accordance with the laws of the State of Iowa, without regard to its conflicts of laws provisions.

14. Assignment. Neither this Agreement nor any rights or duties hereunder may be assigned by the Employee without the prior written consent of the Company. The Company shall have the right at any time to assign this Agreement to its successors and assigns; provided, however, that the assignee or transferee is the successor to all or substantially all of the business and assets of the Company and such assignee or transferee expressly assumes all of the obligations, duties and liabilities of the Company specified in this Agreement.

15. Amendments. Any alterations or amendments to this Agreement shall only be in writing and signed by each party to this Agreement.

16. Binding Effect. Except as otherwise provided, this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective legal representatives, heirs, successors and assigns.

17. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

18. Arbitration. Any dispute, controversy or question arising under, out of, or relating to this Agreement (or the breach thereof), or, the Employee's employment with the Company or termination thereof, other than those disputes relating to Employee's alleged violations of Sections 5, 6, 7 and 8 of this Agreement, shall be referred for binding arbitration in

Des Moines, Iowa to a neutral arbitrator selected by the Employee and the Company and this shall be the exclusive and sole means for resolving such dispute. Such arbitration shall be conducted in accordance with the National Rules for Resolution of Employment Disputes of the American Arbitration Association. The arbitrator shall have the discretion to award reasonable attorneys' fees, costs and expenses to the prevailing party. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This Section 18 does not apply to any action by the Company to enforce Sections 5, 6, 7 and 8 of this Agreement and does not in any way restrict the Company's rights under Section 9 of this Agreement.

19. Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties and supersedes all prior understandings, agreements or representations by or between the parties, whether written or oral, which relate in any way to the subject matter hereof. Without limiting the generality of the foregoing, all existing change in control agreements and patent and confidential information agreements are hereby terminated and of no further force or effect.

20. Survivorship. The provisions of this Agreement necessary to carry out the intention of the parties as expressed herein shall survive the termination or expiration of this Agreement, including, without limitation, Sections 5, 6, 7, 8 and 9.

21. Waiver. Except as provided herein, the waiver by either party of the other party's prompt and complete performance, or breach or violation, of any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation, and the failure by any party hereto to exercise any right or remedy which it may possess hereunder shall not operate nor be construed as a bar to the exercise of such right or remedy by such party upon the occurrence of any subsequent breach or violation.

22. Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision hereof.

23. Construction. The parties acknowledge that this Agreement is the result of arm's-length negotiations between sophisticated parties each afforded representation by legal counsel. Each and every provision of this Agreement shall be construed as though both parties participated equally in the drafting of same, and any rule of construction that a document shall be construed against the drafting party shall not be applicable to this Agreement.

24. Continuation of Employment. This Agreement is not an employment agreement, it shall not confer upon the Employee any right to continuation of employment by the Company, nor shall this Agreement interfere in any way with the Company's right to terminate the Employee's employment at any time.

25. Headings. The headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of any provision of this Agreement.

26. Venue. Any and all lawsuits, legal actions or proceedings brought by the Company to enforce its rights under Sections 5, 6, 7, 8 or 9 of this Agreement (an "Enforcement Action") will be brought in Story County, Iowa or federal court of competent jurisdiction sitting nearest to Ames, Iowa, and each party hereby submits to and accepts the exclusive jurisdiction of such court for the purpose of such Enforcement Action. Each party hereby irrevocably waives any objection it may now have or hereinafter have to this choice of venue of any Enforcement Action in any such court and further waives any claim that any Enforcement Action brought in any such court has been brought in an inappropriate forum.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first written above.

EMPLOYEE

By: /s/ Charles K. Hall
Charles K. Hall

SAUER-DANFOSS INC.

/s/ Ronald C. Hanson
Ronald C. Hanson
Vice President-Human Resources

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**FIRST AMENDMENT
TO
SAUER-DANFOSS CHANGE OF CONTROL AGREEMENT**

This FIRST AMENDMENT (the "Amendment") to the SAUER-DANFOSS CHANGE OF CONTROL AGREEMENT (the "Agreement") is made as of December 20, 2008, between Charles K. Hall (the "Employee") and SAUER-DANFOSS (US) Company, a Delaware corporation ("Employer" or the "Company").

WHEREAS, the Company and the Employee are parties to the Change In Control Agreement dated as of March 8, 2004;

WHEREAS, Section 15 of the Agreement provides that the Agreement may be changed by an instrument in writing signed by the parties thereto; and

WHEREAS, the Company and the Employee have determined that it is desirable to make certain written amendments to the Agreement, in order to be compliant with Section 409A of the Internal Revenue Code of 1986, as amended ("Code Section 409A"), and that such written amendments, pursuant to IRS Notice 2007-86, are permitted to be made at any time on or before December 31, 2008.

NOW THEREFORE, in consideration of the mutual promises and agreements of the parties, the Agreement is hereby amended effective as of December 20, 2008 in the following particulars in order to ensure it is exempt from or compliant with Code Section 409A in all regards:

1. Subparagraphs (i) through (iv) of paragraph (b) of Section 2 of the Agreement are hereby deleted in their entirety and replaced with the following new Subparagraphs (i) through (iv) as a part thereof:

" (i) An amount in cash equal to the Employee's unpaid base salary accrued through the date of termination of employment, accrued vacation pay through the date of termination of employment, unreimbursed business expenses incurred through the date of termination of employment, and all other items earned by and owed to the Employee through and including the date of termination (in full satisfaction for these amounts owed to the Employee) which shall be payable in a lump sum no later than thirty (30) days following the Employee's date of termination of employment.

(ii) An amount in cash equal to:

(A) the actual annual incentive compensation the Employee would have received, if any, under the Annual Management Performance Incentive Plan, or a successor plan thereto (the "Annual Incentive Plan"), for the fiscal year which includes his/her date of termination of employment and assuming that the Employee had been employed through the payout date, *multiplied by*

(B) a fraction (the numerator of which shall be the number of whole months actually worked by the Employee during the Company's fiscal year in which the Employee's date of termination of employment occurs and the denominator of which shall be the number 12) (the "Pro Rata Annual Incentive").

The Pro Rata Annual Incentive shall be payable in a lump sum in accordance with the terms of the relevant underlying Annual Incentive Plan and at the same time payments are made to other Company executives pursuant to such Annual Incentive Plan.

(iii) An amount in cash equal to the sum of Employee's annual base salary and Target Incentive Opportunity under the Annual Incentive Plan in effect on the Employee's date of termination of employment with such amount being payable as follows:

(A) an amount equal to *the lesser of*:

- (1) the sum of the Employee's annual base salary *plus* Target Incentive Opportunity as in effect on the Employee's date of termination of employment; or
- (2) two (2) times the Employee's base salary as in effect on the Employee's date of termination of employment; or
- (3) two (2) times the compensation limit of Code Section 401(a) (17) (*i.e.*, \$460,000 for 2008)

shall be paid to Employee in a lump sum no later than thirty (30) days following the Employee's date of termination of employment; and

(B) an amount, if any, equal to:

- (I) the sum of the Employee's annual base salary *plus* Target Incentive Opportunity as in effect on the Employee's date of termination of employment, *reduced by*
- (II) the amount paid to Employee under Clause (A) immediately above

shall be paid to Employee in a lump sum no later 30 days following the seven month anniversary of the Employee's date of termination of employment.

(iv) A amount in cash equal to ten percent (10%) of the Employee's then current annual base salary in lieu of health, dental, long-term disability, and life insurance continuation with such amount being payable in a lump sum no later than thirty (30) days following the Employee's date of termination of employment. The Employee's participation in these and all other similar benefits shall cease upon the termination of Employee's employment with the Company under circumstance which entitle the Employee to the payments set forth in this Section 2(iv)"

2. Paragraph (d) of Section 2 of the Agreement is hereby deleted in their entirety and replaced with the following new Paragraph (d) as a part thereof:

“ (d) **Subsequent Recalculation.** In the event the Internal Revenue Service subsequently adjusts the excise tax computation herein described, the Company shall reimburse the Employee for the full amount necessary to make the Employee whole (less any amounts received by the Employee that the Employee

would not have received had the computations initially been computed as substantially adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service. Any such reimbursement under this paragraph (d) shall be made by the Company to the Employee no later than the December 31 of the calendar year following the calendar year in which the Employee is assessed and pays any such additional amounts to the IRS. ”

* * * * *

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed and delivered as of this 20th day of December, 2008.

SAUER-DANFOSS (US) COMPANY

By: /s/ Ronald C. Hanson
Ronald C. Hanson
Vice President — Human Resources

EMPLOYEE

/s/ Charles K. Hall
Charles K. Hall

**Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan
Restricted Stock Award Agreement**

You have been selected to be a Participant in the Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan (the "Plan"), as specified below:

Participant: _____

Date of Award: June 11, 2009

Number of Shares of Restricted Stock Awarded: 1,500

Vesting Date and Number of Shares Vested per Vesting Date:

<u>Vesting Date</u>	<u>Number of Shares Vested</u>
June 27, 2012	1,500

This document constitutes part of the prospectus covering securities that have been registered under the Securities Act of 1933.

THIS AWARD AGREEMENT, effective as of the Date of Award set forth above, represents the award of Restricted Stock by Sauer-Danfoss Inc., a Delaware corporation (the "Company"), to the Participant named above, pursuant to the provisions of the Plan.

The Plan provides a complete description of the terms and conditions governing the Restricted Stock. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall completely supersede and replace the conflicting terms of this Agreement. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein. The parties hereto agree as follows:

1. Certificate Legend. Each certificate, or transfer agent book record, representing shares of Restricted Stock granted pursuant to the Plan shall bear the following legend:

"The sale or other transfer of shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan, rules of administration adopted pursuant to such Plan, and in the Restricted Stock Award Agreement dated June 11, 2009. A copy of the Sauer-Danfoss Inc. 2006 Omnibus Incentive Plan, such rules, and such Restricted Stock Award Agreement may be obtained from Sauer-Danfoss Inc."

2. Removal of Restrictions. Except as may otherwise be provided herein and in the Plan, the Restricted Stock awarded pursuant to this Agreement shall become freely transferable by the Participant in accordance with the Vesting Date and Number of Shares Vested per Vesting Date set forth above. Once Restricted Stock is no longer subject to any restrictions, the Participant shall be entitled to have the legend required by Section 1 of this Agreement removed from his stock certificates that are no longer subject to restrictions.

3. Voting Rights and Dividends. Prior to the Vesting Date, the Participant may exercise full voting rights and shall be entitled to dividends and other distributions paid with respect to the shares of Restricted Stock while they are held. If any such dividends or distributions are paid in shares of common stock of the Company, the shares shall be subject to the same restrictions on transferability as are the shares of Restricted Stock with respect to which they were paid.

4. Termination of Directorship. Unless otherwise designated by the Sauer-Danfoss Inc. Compensation Committee, all unvested Restricted Stock shall be forfeited upon the Participant's termination of service on the Board.

5. Change of Control. In the event of a Change of Control (as defined in the Plan), all restrictions on the transferability of outstanding awards of Restricted Stock held by the Participant under the Plan shall immediately lapse, and thereafter such shares shall be freely transferable by the Participant, subject to applicable Federal and state securities laws.

6. Nontransferability. Prior to vesting, Restricted Stock awarded pursuant to this Agreement may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated ("a Transfer"), other than by will or by the laws of descent and distribution, except as provided in the Plan. If any Transfer, whether voluntary or involuntary, of Restricted Stock is made, or if any attachment, execution, garnishment, or lien shall be issued against or placed upon the Restricted Stock, the Participant's right to such Restricted Stock shall be immediately forfeited by the Participant to the Company, and this Agreement shall lapse.

7. Adjustments in Authorized Shares. The Committee shall have the sole discretion to adjust the number of shares of Restricted Stock awarded pursuant to this Agreement, in accordance with Section 4.4 of the Plan.

8. Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Agreement.

9. Share Withholding. With respect to withholding required upon any other taxable event arising as a result of Awards granted hereunder, the Participant may elect, subject to the approval of the Compensation Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be withheld on the transaction. All such elections shall be irrevocable, made in writing, signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

10. Beneficiary Designation. The Participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Agreement is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Secretary of the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

Beneficiary Designation (name, address, and relationship):

11. Administration. This Agreement and the rights of the Participant hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Participant. Any inconsistency between the Agreement and the Plan shall be resolved in favor of the Plan.

12. Miscellaneous.

(a) The Committee may terminate, amend, or modify the Plan; provided, however, that no such termination, amendment, or modification of the Plan may in any way adversely affect the Participant's rights under this Agreement, without the Participant's written approval.

(b) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(c) All obligations of the Company under the Plan and this Agreement, with respect to this Restricted Stock, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

(d) To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with, the laws of the state of Delaware.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective as of _____.

Participant

Sauer-Danfoss Inc.

By:

Anne L. Wilkinson

**SUBSIDIARIES OF THE REGISTRANT
MARCH 2010**

Sauer-Danfoss Inc.	Jurisdiction of Formation	Business Purpose
Sauer-Danfoss (US) Company	Delaware	Manufacturing & Sales
Hydro-Gear, Inc.	Delaware	Holding Company
Hydro-Gear Limited Partnership	Illinois	Manufacturing & Sales
TSD Integrated Controls LLC	Delaware	In Liquidation
Sauer-Danfoss Pty Ltd.	Australia	Sales
Sauer-Danfoss BVBA	Belgium	Sales
Sauer-Danfoss Hidraulica Mobil Ltda.	Brazil	Manufacturing
Sauer-Danfoss Ltda.	Brazil	Sales
Sauer-Danfoss Shanghai Hydrostatic Transmission Co., Ltd.	China	Manufacturing
Sauer-Danfoss-Daikin Mobile Hydraulics (Shanghai) Co., Ltd.	China	Sales
Sauer-Danfoss Shanghai Co. Ltd.	China	Manufacturing
Sauer-Danfoss ApS	Denmark	Manufacturing & Sales
Sauer-Danfoss Holding ApS	Denmark	Holding Company
Sauer-Danfoss BV	Netherlands	Sales
Oy Sauer-Danfoss AB	Finland	Sales
Sauer-Danfoss S.A.S.	France	Sales
Sauer-Danfoss GmbH & Co. OHG	Germany	Manufacturing & Sales
Sauer-Danfoss GmbH	Germany	Holding/Management Company
Sauer-Danfoss Informatik GmbH	Germany	Information Services
Sauer-Danfoss India Private Limited	India	Manufacturing & Sales
Sauer-Danfoss S.r.l.	Italy	Manufacturing & Sales
Daikin-Sauer-Danfoss Manufacturing Ltd.	Japan	Manufacturing & Sales
Sauer-Danfoss-Daikin Ltd.	Japan	Sales
Sauer-Danfoss-Daikin Ltd., Korea	Korea	Sales
Sauer-Danfoss A/S	Norway	Sales
Sauer-Danfoss sp.z.o.o.	Poland	Manufacturing & Sales
Sauer-Danfoss LLC	Russia	Sales
Sauer-Danfoss-Daikin Pte. Ltd.	Singapore	Sales
Sauer-Danfoss a.s.	Slovakia	Manufacturing & Sales
Sauer-Danfoss SA	Spain	Sales
Sauer-Danfoss AB	Sweden	Manufacturing & Sales
Sauer-Danfoss Limited	United Kingdom	Sales

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[EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT MARCH 2010](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Sauer-Danfoss Inc.:

We consent to the incorporation by reference in the registration statements No. 33-53927 and No. 333-93745 on Form S-8 of Sauer-Danfoss Inc. of our report dated March 4, 2010 with respect to the consolidated balance sheets of Sauer-Danfoss Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2009, which report appears in the December 31, 2009 annual report on Form 10-K of Sauer-Danfoss Inc.

/s/ KPMG LLP

Des Moines, Iowa
March 4, 2010

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[EXHIBIT 23.1](#)

[Consent of Independent Registered Public Accounting Firm](#)

Certification

I, Sven Ruder, certify that:

1. I have reviewed this annual report on Form 10-K of Sauer-Danfoss Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2010

/s/ SVEN RUDER

Sven Ruder
President and Chief Executive Officer

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[EXHIBIT 31.1
Certification](#)

Certification

I, Jesper V. Christensen, certify that:

1. I have reviewed this annual report on Form 10-K of Sauer-Danfoss Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2010

/s/ JESPER V. CHRISTENSEN

Jesper V. Christensen
*Executive Vice President and
Chief Financial Officer*

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[EXHIBIT 31.2
Certification](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Sauer-Danfoss Inc. (the "Company") on Form 10-K for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sven Ruder, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2010

/s/ SVEN RUDER

Sven Ruder
President and Chief Executive Officer

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[EXHIBIT 32.1](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Sauer-Danfoss Inc. (the "Company") on Form 10-K for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jesper V. Christensen, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2010

/s/ JESPER V. CHRISTENSEN

Jesper V. Christensen
*Executive Vice President and
Chief Financial Officer*

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[EXHIBIT 32.2](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

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