

# Sauer-Danfoss

## Worldwide Code of Legal and Ethical Business Conduct

(Revision Dated 1 January 2007)

### **Preamble**

Ethical conduct is the basis of professionally sound and legally correct business relationships. For this reason, Sauer-Danfoss Inc. and its subsidiaries (sometimes collectively referred to as the "Company") establish this Code of Business Conduct (sometimes referred to as the "Code") to be observed by all Company employees, directors and agents, including representatives and consultants worldwide.

It is the intention of the Company that the name Sauer-Danfoss be synonymous with the highest business standards. The Company and all of its employees will conduct business according to high moral and ethical principles and in compliance with applicable law. Integrity, honesty and legality will govern every action and every decision that is made in all relationships internally and externally with shareholders, suppliers, distributors, customers, competitors, government officials and the public.

The Sauer-Danfoss Code of Business Conduct is generally stated. While the Code does not refer to every possible situation, it does provide guidance. Every employee is expected to use sound judgment in following this Code in situations not specifically addressed. The Company has adopted, and may from time to time adopt, policies and guidelines which address more specifically certain activities that are more broadly stated in this Code. Such policies and guidelines are intended to be supplemental to this Code and every employee is expected to be familiar with and comply with such policies and guidelines.

As a global company, we do business in many different countries where the laws, business practices and customs may vary significantly. It is the Company's policy to abide by the national and local laws of the countries in which we operate, unless prohibited by U.S. law. It is also our intent to follow local customs and practices unless they conflict with a policy in this Code or applicable laws or regulations, in which event this Code or applicable laws or regulations should be followed. If any questions arise in this regard, please contact a member of the Committee as described below.

### **Responsibilities**

This Code applies to all the Company and all its business units and subsidiaries worldwide and to every employee, agent, representative and consultant and to directors of the Company. All employees have an affirmative obligation to be familiar with and comply with this Code and report any actual or potential violations of this Code.

General managers shall inform their employees, agents, representatives and consultants of this Code and Company requirements for high ethical standards and compliance to laws, and shall establish appropriate procedures to support and ensure compliance.

### **Authority**

Overall administration of this Code shall be the responsibility of the Audit Committee of the Sauer-Danfoss Inc. Board of Directors. The day-to-day administration of this Code shall be the responsibility of the Corporate Business Conduct Committee (hereinafter referred to as

the "Committee"), comprised of the President & Chief Executive Officer, Executive Vice President and Chief Financial Officer, and the Vice President of Human Resources. The Committee shall periodically report to the Audit Committee of the Board of Directors its activities and dealings related to the administration of and compliance with this Code.

## **Certification**

Employees in designated job positions shall annually certify compliance with this Code.

## **Reporting Instances of Possible Non-compliance**

Any exceptions to, deviations from, violations, or suspected violations of this Code shall be immediately reported to a member or members of the Committee, to a member of the Audit Committee of the Board of Directors, or to someone in a formal leadership capacity. The Company wants it clearly understood that adherence to this Code carries the highest priority worldwide.

There can be no retaliation for making a report. Identities of those making a report will remain confidential to the extent practicable. Any employee reporting in good faith a possible violation shall not be disciplined for so reporting, providing the employee is not involved in a violation of the Code.

## **Violations of the Code**

Violations of this Code will result in discipline up to and including discharge. Disciplinary action will be taken against any individual who is found to have authorized, condoned, participated in or concealed actions that violate this Code and against any individuals who retaliate, directly or indirectly, or encourage others to retaliate against an employee who reports a violation of this Code.

## **Compliance to Laws**

We will comply with the applicable laws in the countries where we do business, except to the extent such compliance is prohibited by applicable U.S. law, while affirming and complying with our own standards as outlined in this Code. If there is uncertainty about the legality of a business practice, or if the applicability of the law is unclear, legal advice should be sought.

## **Financial Control and Accuracy of Records**

Company funds, assets and services shall not be used for non-business purposes without approval nor be used for any purpose that is unlawful or for any purpose other than what is described in documents supporting the payment. Under no circumstances shall any undisclosed or unrecorded fund be established or maintained.

The Company's business transactions worldwide must be properly authorized and be completely and accurately recorded on the Company's books and records in accordance with generally accepted accounting practice and established Company financial policy. The Company prohibits false or misleading entries in its books and records or in any governmental filing for any reason.

The retention or proper disposal of Company records shall be in accordance with established Company policies and applicable statutory and legal requirements.

## **Anti-boycott Laws**

No officer, employee or agent shall take any action that would have the effect of supporting an illegal boycott or restrictive trade practice. Employees are to comply with anti-boycott laws that require specific language for labeling goods according to their origin. Under U.S. anti-boycott laws, the Company is required to report the receipt of any request to participate in an international boycott. The receipt of a boycott request must be reported immediately to a member of the Committee.

## **Export & Import Controls**

Employees are to comply with the export and import controls embodied in the laws and regulations of the countries where the Company conducts business. The Company shall not export, import or re-export any commodity or technical data in violation of law, or incorporate any such item within any other device. Employees are not to take any action that would put the Company in violation of the law.

General managers shall appoint individuals to be responsible for establishing export and import control procedures and for applying for export licenses as necessary for contracts, agreements and foreign sales.

## **Antitrust Laws and Competitive Practices**

Employees are to comply with antitrust laws of the countries in which the Company operates which prohibit agreements with competitors regarding pricing, terms or conditions of sale, or allocation of products, business markets, customers or territories. Employees who must deal directly or indirectly with a competitor are to obtain a working knowledge of and abide by applicable antitrust laws.

Sharing certain types of information with competitors under some circumstances can violate the law. To avoid any appearance of impropriety and illegality, any discussion or communication of any kind with a competitor relating to pricing, production, marketing, inventories, product development, sales territories and goals, market studies and proprietary or confidential information is prohibited.

In situations where a competitor is also a supplier or customer, providing or receiving certain information regarding production, product development and other confidential information may be appropriate, but no information should be provided or accepted without advice from legal counsel and approval by an officer of the Company regarding the types of information to be provided and establishment of procedures and controls to assure that compliance with the law is maintained.

The Company and its employees will not engage in any illegal or improper acts to acquire a competitor's trade secrets, customer lists, information about the competitor's facilities, technical developments or operations. The Company and its employees will not approach or pay anyone to obtain confidential information or urge competitive personnel or customers to disclose anything that could be regarded as confidential.

## **Conflict of Interest**

Each employee must be careful to avoid situations where personal interests conflict, or appear to conflict, with the interests of the Company, its shareholders, customers or

suppliers. A conflict of interest is a situation in which an employee, officer or director, or their family or friends, stands to benefit personally, or could appear to benefit, at the expense of the best interests of the Company. A conflict, or appearance of a conflict, might arise, for example, by owning a financial interest in, or serving in a business capacity with, an outside enterprise that does or wishes to do business with, or is a competitor of, the Company; serving as an intermediary for the benefit of a third party in transactions involving the Company; using confidential Company information or other corporate assets for personal profit, conducting business for another enterprise during our normal working hours or using Company property to conduct business for another enterprise. An employee should report any situation perceived to be a conflict of interest, or any potential conflict of interest, to a member or members of the Committee.

## **Political Contributions**

Employees, as private individuals, are encouraged to participate in public affairs and appropriate political and charitable activities, so long as they make it clear that their views and actions are not those of the Company. In no event shall any officer or employee make any contribution (money, services or use of Company property) in support of a political party or candidate on behalf of the Company. The Company shall not reimburse any officer or employee for any political contribution.

## **Bribery Prohibition**

The U.S. Foreign Corrupt Practices Act ("FCPA") prohibits the Company, its officers, directors, employees, representatives and agents (including distributors and consultants), and any stockholders acting on their behalf, from directly or indirectly offering, making or promising to make a payment or giving a gift to any "foreign official" (defined broadly to include any officer or employee of a foreign government or any department, agency or instrumentality thereof, including officers and employees of foreign state-owned companies), a political party or candidate or a public international organization for purposes of obtaining or retaining business, or securing an improper business advantage over competitors. The FCPA applies to the Company everywhere in the world we do business. Employees and Company representatives shall not make or offer to make any payments to or bribe public officials for the purpose of influencing, obtaining, or retaining business for the Company, or otherwise securing an improper business advantage over competitors. Paying bribes or giving gifts or offering or promising anything of value or providing any other illegal inducement shall not be authorized, offered or made to any foreign official, foreign political party or candidate, or to any other person, such as a supplier, who may influence an official act or decision.

Where it is local custom to make facilitating payments to a foreign official in a routine ministerial or clerical function to move a procedural matter toward an eventual act or conclusion which does not involve a contractual or discretionary action, token amounts may be permitted, but only to low-level government employees to secure prompt and proper performance of procedural or ministerial duties which, absent such a payment, would probably be delayed to the detriment of the Company. If there is any question regarding the propriety of a facilitating payment, the matter should be discussed with a member of the Committee.

Other countries have also enacted laws that, like the FCPA, make it unlawful to bribe foreign officials. Some of these laws are broader than the FCPA by making it illegal to provide gifts or facilitating payments to foreign officials. The laws of some countries may be violated by the simple act of giving something of value to a public official. Again, if there is any question

regarding the propriety of a facilitating payment or a gift, the matter should be discussed with a member of the Committee.

## **Dealing with Customers and Suppliers**

Conducting business with suppliers and customers requires care to avoid ethical and legal problems. We do not seek to gain any unfair competitive advantage through the use of improper influence, and it is important that our actions do not even present the appearance of improper activity.

All payments to customers or suppliers of the Company must be made in the ordinary course of business under established review and approval procedures. Kickbacks, unauthorized rebates or other unauthorized payments whether in money, property or services given to employees, customers, suppliers, their employees, agents, or members of their families are prohibited.

Reciprocity occurs when two companies buy each other's products. This practice is normal and acceptable. However, no employee may buy or accept another company's products as a condition of selling company products or services, or require a supplier to buy our products in order to sell products or services to the Company.

Employees and their immediate family members may not solicit, accept, or give gifts of money, gratuities, loans, services, vacations or pleasure trips, or any other favor of any kind in their dealings with suppliers or customers, or potential suppliers or customers. However, to accommodate reasonable business courtesies, employees and members of their immediate families may accept or give unsolicited gifts (other than money) *if the gift is of nominal value, is not to a public official (see Bribery Prohibition above) and is reported to the employee's supervisor.*

Employees may offer and/or accept entertainment that is business related, but only if the entertainment is reasonable, occurs infrequently, arises out of the usual course of business, does not involve inappropriate excessive expenditures, and does not obligate the recipient(s) in any manner. Any doubt about the propriety of accepting any gift or entertainment should be resolved by disclosure to the employee's supervisor prior to acceptance.

Agreements with agents, distributors, consultants, licensees and all other Company representatives must be in writing and clearly and accurately describe the services to be performed, the basis for all compensation, and the actual commission or fee to be paid. Payments must be reasonable in amount and not excessive under local trade custom.

All payments to agents, distributors, consultants, licensees and all other Company representatives should be made directly to the contracting party or their accounts in the country of the contracting party's residence or registered place of business. Payments to accounts in another country may result in charges of aiding or conspiring to violate tax or exchange control laws. The only exceptions to this policy shall be in cases where there is a need-documented justification for a payment in another country or account and the Company Tax Department has determined that such payments will not violate applicable tax, exchange control or other laws.

## **Securities Laws and Inside Information**

Employees and Directors are to comply with security laws and specifically with laws that prohibit acting on material inside information (information not available to the general

public) such as significant information about earnings results or projections, mergers, acquisitions, or important new contracts, products or projects. These laws specifically prohibit buying or selling securities, in any company (including Sauer-Danfoss Inc.), based on information obtained in the performance of Company duties, or the disclosing of inside information to any other person who may trade in the related securities before the information is properly released to the public.

## **Use and Protection of Information**

The Company is a market leader in the design, manufacture, and sale of a variety of proprietary technology-based products requiring significant investment, including research and development costs as well as processing expertise. Information about these products and their development, like other Company information, is critical to the success of the Company. Like physical assets, information assets require care and protection. Therefore, all users must protect the confidentiality, integrity, and availability of such information in accordance with the Sauer-Danfoss Global Information Security Policy.

Unauthorized release of information or failure to maintain proper control over our technology has serious implications and could result in irreparable harm to the Company. Likewise, our competitors, customers, suppliers and other third parties have similar types of information relating to their businesses and products. Employees have access to information that is private and owned or controlled by the Company, its customers, its suppliers and/or other third parties. This information is considered confidential and "restricted." Its unauthorized disclosure can have significant business, legal and economic consequences and is prohibited.

## **Drug and Alcohol Use**

The Company will abide with all applicable laws and regulations relative to the possession or use of alcohol or drugs. The Company's policy prohibits the illegal use, sale, purchase, transfer, possession, or presence in one's system, of drugs, other than medically prescribed drugs, while on Company premises. Similarly, the Company policy prohibits the use, sale, purchase, transfer, or possession of alcoholic beverages by employees while on Company premises, except as authorized by the Company.

## **Employee Relations**

The Company is committed to a policy of equal employment opportunity to qualified individuals regardless of their race, religion, color, national origin, age, sex or disability. This policy applies to all phases of the employment relationship, including hiring new employees, promotions, selection for training programs, compensation administration, and benefit programs.

The Company's policy is to provide a work environment free from sexual harassment. The Company enforces a preventative program that includes an explicit policy against sexual harassment. Complaints of sexual harassment will be promptly investigated and addressed and should be reported to a Human Resources representative. Consistent with conducting a fair and thorough investigation, the Company will protect confidentiality to the greatest extent practicable and will provide effective remedies, including protection of complainants and witnesses against retaliation.

The Company is committed to providing a drug-free, safe, and healthy work environment. Each employee is responsible for compliance with environmental, health, and safety laws and regulations.

## **Summary**

Every employee must apply ethical standards and principles of integrity, honesty and legality in all they do for the Company. Everyone will avoid conflicts of interest; practice ethical principles in dealing with suppliers and customers; maintain books and records according to acceptable standards; and comply with all guidelines relating to competitive practices and political activities and contributions.

All employees must report non-compliance with this Code to a member or members of the Committee, to a member of the Audit Committee of the Board of Directors, or to someone in a formal leadership capacity. There will be no retaliation for making a report. Violations of this Code will result in discipline up to and including discharge. All employees are expected to comply with this Code even if it means losing business or reducing profitability. Ethical conduct is not only the right thing to do; it is mandatory, and it upholds a long Company tradition.