

SAUER-DANFOSS INC.
COMPENSATION COMMITTEE CHARTER
Amended and Restated April 27, 2005

Purposes

The purposes of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Sauer-Danfoss Inc. (the “Company”) are: (i) to discharge the responsibilities of the Board relating to compensation of the Company’s Chief Executive Officer (“CEO”) and other elected officers of the Company (the “elected officers”), (ii) to produce an annual report on executive compensation for inclusion in the Company’s annual proxy statement, in accordance with applicable rules and regulations, and (iii) to perform the other functions enumerated in and consistent with this Charter.

In pursuing its purposes, the Committee shall ensure that a proper system of long-term and short-term compensation is in place for the Company’s CEO and elected officers, and that compensation plans are appropriate and competitive and properly reflect the objectives and performance of the CEO, elected officers and the Company.

Membership

The Committee shall consist of three or more directors, as shall be determined from time to time by the Board. The members of the Committee shall be appointed by the Board. A director may serve on the Committee only if the Board determines that such director (i) is a “Non-Employee Director” for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, (ii) satisfies the requirements of an “outside director” for purposes of Section 162(m) of the Internal Revenue Code, and (iii) is “independent” in accordance with the rules and regulations of the New York Stock Exchange and any other securities exchange on which the Company’s securities are listed. The members of the Committee shall continue to be members until their successors are elected and qualified or until their earlier retirement, resignation or removal. Any member may be removed, with or without cause, by the Board at any time.

Committee Structure and Operations

The Board shall designate a member of the Committee as its Chair. A majority of the Committee shall constitute a quorum and the Committee may act only by a majority of the members present at a meeting of the Committee, including a telephonic meeting, or by unanimous written consent. The Committee shall meet at least four times each year and at such other times as it deems necessary to fulfill its responsibilities. The Chair shall determine the schedule of meetings of the Committee, and in addition to the regular schedule of meetings the Chair shall have the power to call and set special meetings. The Chair shall determine the agenda for Committee meetings, and the length of meetings. Where practicable, materials should be distributed to members prior to each Committee meeting. The Chair shall establish such other rules as may from time to time be necessary and proper for the conduct of the business of the Committee. The Chair shall provide regular reports to the Board on the Committee’s activities.

The Committee may appoint a Secretary whose duties and responsibilities shall be to keep full and complete records of the proceedings of the Committee. The Secretary need not be a member of the Committee or a director and shall have no membership or voting rights by virtue of the position.

The Committee may ask members of management or others whose advice and counsel are relevant to the issues then being considered by the Committee to attend any meetings and to provide such pertinent information as the Committee may request.

The Committee may establish subcommittees consisting of one or more members to carry out such duties as the Committee may assign.

The Committee has the authority to retain such outside advisors, including legal counsel or other experts, as it deems appropriate, and to approve the fees and expenses of such advisors. Without limiting the foregoing, the Committee shall have the sole authority to retain and terminate compensation consultants, as the Committee deems advisable, including the sole authority to approve any such consultants' fees and other retention terms.

The Committee may conduct or authorize surveys or studies of matters within the Committee's scope of responsibilities as set forth in this Charter, including, but not limited to, surveys or studies of compensation practices in relevant industries in order to maintain the Company's competitiveness and ability to recruit and retain highly qualified people.

Duties and Responsibilities

The following shall be the common recurring duties and responsibilities of the Committee in carrying out its purposes. These duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may diverge from this guide as appropriate given the circumstances.

The Committee shall:

- (a) Review and approve the Company's compensation philosophy and oversee the development and implementation of compensation programs for the CEO and other elected officers;
- (b) Review and approve the corporate goals and objectives relevant to the compensation of the CEO and the other elected officers;
- (c) Evaluate the performance of the CEO and other elected officers in light of such goals and objectives at least annually and communicate the results to the Board;
- (d) Set the salary and other cash and equity compensation for the CEO and other elected officers based on the evaluation described in (c) above;
- (e) Establish and modify the terms and conditions of employment of the CEO and other elected officers of the Company by contract or otherwise;

(f) In determining the long-term incentive component of the CEO's and other elected officers' compensation, consider, among other items, the Company's performance and relative stockholder return, the value of similar incentive awards to CEOs and other elected officers at comparable companies, and the awards given to the Company's CEO and other elected officers in past years;

(g) Administer the executive compensation plans of the Company;

(h) Determine, as applicable in connection with the Company's executive compensation plans such matters as: eligibility for participation; the amount and timing of benefits; persons to receive awards; the amount, form and other conditions of awards; the manner and form of deferral elections; the creation and issuance of rights or options entitling holders thereof to purchase stock from the Company; or when appropriate authorize the purchase by the Company of its stock for allocation to the accounts of persons to whom such shares have been awarded;

(i) Administer other executive compensation plans that may be adopted from time to time;

(j) Monitor executive compensation programs to determine whether they are properly coordinated and achieving their intended purpose;

(k) Make periodic recommendations to the Board with respect to the general compensation, benefits and perquisite policies and practices of the Company with respect to the CEO and other elected officers, including, without limitation, the Company's incentive-compensation plans and equity-based compensation plans;

(l) Provide necessary approval to qualify for exemptions as may be established by the Securities and Exchange Commission under Section 16 of the Securities Exchange Act of 1934;

(m) Provide necessary determinations in connection with executive compensation to qualify for tax deductions in excess of limitations under Section 162(m) of the Internal Revenue Code;

(n) Approve equity compensation plans not subject to stockholder approval under applicable listing standards;

(o) Report on compensation policies and practices with respect to the corporation's executive officers as required by the rules of the Securities and Exchange Commission, the New York Stock Exchange and any other applicable rules and regulations;

(p) Conduct an annual review of director compensation and consider, among other factors, that director compensation should fairly pay directors for their responsibilities and duties undertaken in serving as a director of a company of the size and complexity of the Corporation. Recommendations on the form and amount of director compensation shall be made to the Board for their determination; and

(q) Perform such other duties and functions related to executive compensation and director compensation as the Board may assign to the Committee from time to time.

Committee Performance Evaluation

The Committee shall annually undertake a self-evaluation of the Committee's performance and set forth its objectives for the next year. The Committee shall provide a report of that evaluation to the Board, including any recommended changes to the Committee's Charter.