

Interim Report 2007

1 January to 30 June 2007

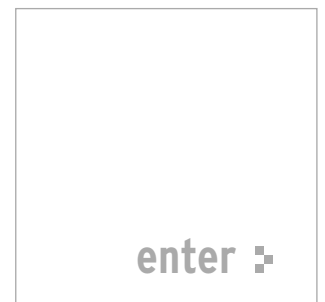
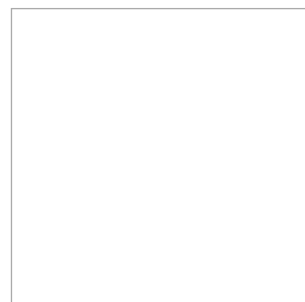
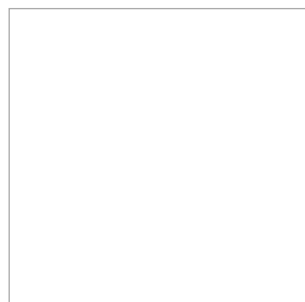
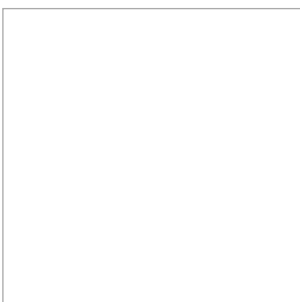
■ The First 25 years of Quality

Seeing the big picture. Focusing on detail.



➤ **SQS makes IT projects more successful.**

SQS improves the success rate and the efficiency of software projects worldwide. By combining our growing national and international skill base with extensive knowledge of our clients' businesses we offer 'best in class' services for Software Quality Management, Quality Assurance and Testing. Importantly, our unique position as an 'independent' specialist allows us to add considerable value at all stages of the software life cycle.



**■ Interim results
for the six months
ended 30 June
2007**

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financial information
at 30 June 2007
(unaudited)**

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Interim results for the six months ended 30 June 2007

SQS Software Quality Systems AG (AIM:SQS.L), the global leader in independent software testing and quality management services, today announces its interim results for the six months ended 30 June 2007.

Financial highlights:

- Turnover up by 78.5% to €56.2m (HY1 2006: €31.5m)
- Strong organic growth of nearly 25% is almost five times higher than growth in the European IT services market⁽¹⁾
- First-time H1 impact of Cresta added nearly 54% to Group revenues
- Gross profit up 91.0% to €19.4m (HY1 2006: €10.2m) with gross margins improving to 34.5% (HY1 2006: 32.3%)
- Adjusted⁽²⁾ profit before tax up 168.9% to €4.6m (HY1 2006: €1.7m)
- Adjusted⁽³⁾ earnings per share up 90.0% to €0.19 (HY1 2006: €0.10)
- Cash inflow from operating activities improved to €3.8m compared with an outflow of €0.05m in the same period last year

Operational highlights:

- Margins outpacing revenue growth due to higher pricing in the UK and Germany, as well as continuing high levels of consultant utilisation
- Investment in 130 new staff - mostly consultants - to support current strong demand for SQS services and future organic growth of the business
- 64 new client wins (about 15% of the total number of clients) against 100 for the whole of 2006
- Long-term contracts doubled to 14, many with offshore delivery
- Strong performance in energy, financial services and automotive sectors
- Acquisition of Triton after period end will immediately increase earnings and enhance the position of SQS in the insurance market

(1) IDC/European Information Technology Observatory (EITO) study, 2007: WWW.EITO.COM

(2) adjusted to add back pro forma interests required to be shown under IFRS of €0.3m on future payment milestones to the Cresta sellers

(3) based on net income increased by €0.5m on IFRS tax differences and €0.3m of pro forma interests but including actual profit taxes of €0.9m payable under local GAAP

Chief Executive's Statement



Introduction

I am pleased to present strong interim results for the first half of 2007, in which SQS achieved material improvements in revenues, margins and profits across the Group.

Turnover from operations rose by 78.5% to €56.2m (HY1 2006: €31.5m) while underlying adjusted profit before tax increased by 168.9% to €4.6m (HY1 2006: €1.7m).

These improvements resulted from strong organic growth of nearly 25% and acquisitive growth of nearly 54% from the first-time impact of Cresta Group Ltd., which was consolidated in the second half of 2006.

A favourable market environment, particularly in Germany and the UK, has allowed pricing increases in excess of volume growth, resulting in profits growth at twice the rate of sales.

We have continued to strengthen our client base and improve our revenues from repeat business. The total number of clients now stands at more than 400, following 64 new account wins in the period - compared with 100 across the whole of 2006. We have secured additional long-term contracts in key verticals such as financial services, telecommunications and logistics, with a number of contracts involving significant offshore delivery components.

We have continued to invest in growth, increasing the number of staff - mainly consultants - by 130 to a total of 860. Although hiring new consultants has impacted our G&A costs with agency fees in the first half of the year, the impact of the new consultants' initial training costs on gross margins could be more than offset by improved pricing. Utilisation rates have remained stable, which with improved pricing, has helped to reinforce the gross margin.

Dividend

No dividend will be paid in respect of the 2007 interim results, but as previously announced, the Company proposes to pay an enhanced dividend for its 2007 financial year which will incorporate both the return of capital for its 2006 financial year and the dividend which the directors currently expect to be able to pay for the Company's 2007 financial year. Measures to reorganise the net asset base to enable dividend payments have now been passed, and the enhanced dividend will be paid following the announcement of its preliminary results for the year ended 31 December 2007 and the AGM planned for May 2008.

Business strategy

Our strategy is to build upon our market position as the global leader in independent software testing and quality management services, with a major focus on the European market. We aim to grow our business with long-term outsourcing contracts and further investment into expanding markets, such as management consulting and embedded systems. Furthermore, we intend to strengthen our position in a number of key European markets and will continue to look actively for acquisitions to support and accelerate this strategy.

The SQS Group strategy is centred on five strategic business areas, all of which all contribute to market leadership as a service company and the resulting improvements in shareholder value. They are:

- **Market leadership:** Extend leadership in independent quality management and testing by delivering added value to our customers in order to help them achieve their goals
- **Growth:** Increase Group revenues significantly above the market growth rate for IT services
- **Financial strength:** Remain the strongest independent software testing and quality management services company in Europe
- **Employment:** Extend and retain a strong base of skilled and highly motivated employees
- **Technology leadership:** Spot and anticipate trends in business and IT with respect to software quality management and utilise what we learn for the benefit of our clients and shareholders

Services and product lines

As the largest independent provider of software quality management services we continuously develop our range of offerings. They are:

- **Professional services for business and IT:** Within its broad range of software testing and quality management services, SQS has enhanced its offerings in the fields of management consulting for the business side (e.g. project and risk management), code quality management, and outsourcing/offshoring
- **Tools, licences, and maintenance:** SQS's specialist range of software testing tools has been enhanced by successful market deployment of version 8.0 of our SQS-Test Professional product, which works independently or alongside products developed by other testing tool companies
- **IT training:** The training business has been extended with two new certification schemes being established (INTCCM for Configuration Management and IREB for Requirements Management); this will result in additional courses including certification. ISTQB and ISEB courses were updated for the new versions of the syllabus
- **Conferences and events:** The successful SQC conferences (Software and Systems Quality Conferences), held in Germany, the UK and in Switzerland, are the largest quality management and software testing events in Europe. We plan to expand these into Ireland in 2008. The media partnership with IDG, which was started in 2006, has resulted in a higher number of delegates, exhibitors and sponsors attending our conferences during the year

Market drivers

Software quality management and testing is a specialised segment of the IT services market, and therefore growth in the IT services market correlates closely with growth in software quality management and testing. Research conducted by the European Information Technology Observatory ("EITO") showed the European growth rate for IT services to be 5.3% in 2006, with 5.4% expected for 2007.

Market research on the software testing market commissioned by SQS and conducted by Coleman Parkes Research and PAC in the "SQS countries" in early 2007 revealed that 77% of all IT decision makers acknowledge that software testing is an essential part of IT product development. Around 69% consider the independence of the test team from the software development team to be as important, and 57% agree that compliance and regulation is driving the need for more rigorous software testing.

Current regulatory market drivers include higher demands imposed on IT systems by directives such as Basel II, SEPA (Single European Payment Area) or MiFID (Markets in Financial Instruments Directive).

In addition to these regulatory developments, a high number of IT projects either fail or run out of budget and/or time. This further demonstrates the importance of independent software testing. Continuing return on investment (ROI) pressures, coupled with increasing "industrialisation" of the software engineering process has led to an increased demand for outsourced software testing as well as better quality management of embedded systems.

The Board

There have been no changes to our Supervisory Board and Management Board in the last six-month period.

Employees

On behalf of the Board, I would like to thank all our employees for their contribution, hard work, and excellent support during the year. I also welcome the many new employees who have joined our company and bring their rich and varied talents to help our company grow. I am confident that we have the best team in place to capitalise on the opportunities available and to enable us to deliver long-term shareholder value.

A stock option programme started in 2006 will be continued in the second half of this year in order to help SQS retain key employees and attract quality individuals into the business.

Outlook

During the year, SQS significantly strengthened its position as the world's largest independent provider of quality management and testing services for software development, and once again accelerated its growth rate, which now stands at close to five times the rate of growth in the European IT services market⁽¹⁾.

In the second half of 2007, we will continue to grow the business organically, focusing on expanding growth markets such as outsourcing, offshoring and embedded systems, whilst consolidating our most recent acquisition with Triton in the field of insurance management consulting. This acquisition enables SQS to lever its expertise into project management and consulting, at the same time opening up a number of cross-selling opportunities for our core testing and quality management services. We expect the Triton acquisition to be earnings enhancing in 2007.

Trading has been encouraging in the first two months of the second half-year, and as expected growth is well ahead of the comparable period last year. The new business pipeline remains strong and at this stage we expect to achieve full year results comfortably ahead of current market expectations.



Rudolf van Megen, Chief Executive Officer
6 September 2007

(1) IDC/European Information Technology Observatory (EITO) study, 2007: WWW.EITO.COM

Financial review



Summary

Geographically, we saw the strongest turnover growth in the United Kingdom, Ireland and South African business, where the top line grew by 406.7%, mainly due to the first-time consolidation of Cresta Group Ltd. which was acquired shortly after the first half-year period ended in 2006.

Germany also performed strongly with 29.0% of pure organic revenue growth, and Switzerland with a top-line growth rate of 19.4%.

Germany

Revenue in Germany was €26.m (HY1 2006: €20.3m), an increase of 29.0%. This represented 46% of the Group's total revenue compared with 64% in the prior period. We intensified our recruitment search in the first half of 2007 in order to grow the local business in Germany significantly in the current year. Profits have increased due to significant price improvements, with utilisation remaining at a high level. During the first half-year, we secured key contract renewals with all our large clients.

United Kingdom/Ireland/South Africa

Markets and pricing in our UK-based businesses continued to be strong. UK-based revenues were €22.5m (HY1 2006: €4.4m), an increase of 407% - representing around 40% of the total Group revenues. Organic growth in this region was strong at nearly 25%, but revenue growth in the first half was flattered by the first-time consolidation of Cresta Group Ltd., which resulted in a like-for-like rate of growth that we will obviously not continue to enjoy in the second half of 2007.

Switzerland

In Switzerland, revenues were €6.0m (HY1 2006: €5.0m), an increase of 19% and representing 11% of the Group's total revenue. While a significant proportion of revenues were achieved using consultants from other SQS entities in 2006, the first half of 2007 marked the first period in which the majority of revenues were billed by locally employed consultants.

SQS won additional clients in banking and insurance, and established a new vertical in telecommunications in Switzerland. Furthermore, we continued to build our recently launched "SQS Group Management Consulting" arm, which focuses on bridging the gap between customers' business and IT departments with our own project and risk management services. The recent acquisition of Triton, an Austrian company active in this field, will enhance our reputation and offering in this arena.

Other European Countries

Our businesses in Austria and the Netherlands generated €1.7m (HY1 2006: €1.8m) which was a decrease of 8.0%, mainly due to increased usage of consultants in other SQS regions.

Margins and profitability

Gross profit improved by 91.0% to €19.4m (HY1 2006: €10.2m). Adjusted profit before tax (adjusted to add back pro forma interests required to be shown under IFRS of €0.3m on future payment milestones to the Cresta sellers) was €4.6m (HY1 2006: €1.7m), up 168.9%. Profit in the first half was positively impacted by the first-time consolidation of Cresta Group Ltd. and strongly improved gross margins from better price levels in the UK and Germany.

Adjusted earnings per share improved to €0.19 (HY1 2006: €0.10) (based on net income increased by €0.5m on IFRS tax differences and €0.3m of pro forma interests but including actual profit taxes of €0.9m payable under local GAAP).

Costs

Administrative costs totalled €8.9m (HY1 2006: €4.7m) and represented 15.9% of sales (HY1 2006: 15.0%). A small reduction in costs through centralising administration was offset by higher agency fees for recruitment, mainly in Switzerland, leading to a small increase in costs as a percentage of sales.

Sales & marketing costs were €3.9m and also increased relative to turnover (from 6.7% to 7.0%) as SQS continues to invest in additional sales resources to support current and future organic growth. Research and development costs of €1.8m fell as a proportion of turnover (to 3.2% from 4.5%), as our investment in tool and course development for our training products remains stable in absolute terms, irrespective of the overall revenue growth. In total, overhead costs relative to sales were reduced to 26.1% from 26.2% in HY1 2006.

Taxation

The Group tax charge of €1.4m has two components: one is tax on profits payable under local GAAP of €0.9m; the other is the deferred tax and tax differences that SQS is required to show under IFRS of €0.5m. Due to tax breaks in Germany under local GAAP, SQS will pay only negligible taxes on profits in Germany, Austria and the Netherlands.

For the full year, we expect an actual tax rate of 25% and a rate of 29% in 2008.

Cash flow and financing

Cash flow from operating activities improved significantly to €3.8m compared with an outflow of €0.05m in the same period last year, mainly due to a reduction of debtor days from 75 at the year end 2006 to 69 at the end of June 2007.

Cash flow from financing activities was neutral and included proceeds of €4.8m from the issue of share capital, which was offset by repayment of borrowings. Cash outflow from investment activities of €2.4m was mainly due to ongoing investments in capitalized R&D for testing tools and training (€1.4m), with a further amount accounted for by the purchase of money market funds, which are a cash equivalent.

Foreign Exchange

Approximately 49% of the Group's turnover is generated in Euros. For the conversion of the local currency into Euros, the official fixed exchange rate was chosen. For the conversion of the balance sheet items from foreign currency into Euros, the official mean rate as at 30 June 2007 was used.

The Group's exposure to foreign exchange risks is negligible as more than 90% of the business is billed and served locally.

Amortisation

Amortisation of goodwill is no longer carried out due to changes in IFRS accounting rules. On account of the high amortisation of goodwill values in previous years, their book values today lie considerably below the original acquisition costs. As a result, no reduction in value was necessary as a result of the impairment tests carried out in accordance with IAS 36.

Balance sheet

The balance sheet strengthened considerably during the period, reflecting the positive net income in the first half of the year and the 4.8m fund raising we made in April this year. We further reduced our borrowings by €5.3m to €1.1m (HY1 2006: €6.4m), resulting in a net cash (including marketable securities) position of €3.5m (HY1 2007: -€6.1m net debt). Cash balances (including marketable securities) at the six-month period end stood at €4.6m (HY1 2006: cash €0.3m).

International Financial Reporting Standards (IFRS)

The Interim Consolidated Financial Statements of SQS and its subsidiary companies ("SQS Group") are prepared in conformity with all IFRS Standards (International Financial Reporting Standards, formerly International Accounting Standards) and Interpretations of the IASB (International Accounting Standards Board) which are mandatory at 30 June 2007, whereas the interim reports are published in an abbreviated form according to IAS 34. The same accounting and valuation method used for the 2006 annual Consolidated Financial Statements was applied. The Interim Consolidated Financial Statements have neither been audited nor reviewed.

The SQS Group Consolidated Financial Statements for the six-month period ended 30 June 2007 were prepared in accordance with uniform accounting and valuation principles in Euros.



René Gawron, Chief Financial Officer
6 September 2007

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2007 (IFRS)**

	NOTES	30 JUNE 2007 (UNAUDITED) T€	30 JUNE 2006 (UNAUDITED) T€	31 DECEMBER 2006 (AUDITED) T€
Current assets				
Cash and cash equivalents	(9)	3,578	265	2,565
Marketable securities	(9)	1,020	0	0
Trade receivables		25,785	13,976	22,231
Other receivables		1,290	5,228	1,058
Work in progress		36	406	314
Income tax receivables		94	330	264
		31,803	20,205	26,432
Non-current assets				
Intangible assets	(7)	3,153	2,544	3,356
Goodwill	(8)	28,313	11,589	28,313
Property, plant and equipment		1,202	721	1,057
Income tax receivables		1,464	0	1,426
Deferred taxes		1,435	1,653	1,881
		35,567	16,507	36,033
Total assets		67,370	36,712	62,465
Current liabilities				
Bank loans and overdrafts	(10)	989	4,578	5,330
Trade creditors		3,250	2,492	3,159
Other provisions	(12)	109	75	76
Tax accruals		1,385	380	667
Tax liabilities		3,110	1,421	2,745
Other current liabilities	(11)	16,270	5,260	15,553
		25,113	14,206	27,530
Non-current liabilities				
Bank loans	(10)	109	1,822	465
Other provisions	(12)	112	126	112
Pension provisions		316	325	294
Deferred taxes		989	938	1,001
Other non-current liabilities		6,575	0	6,564
		8,101	3,211	8,436
Total liabilities		33,214	17,417	35,966
Shareholders' equity				
	(13)			
Share capital		18,691	15,763	17,191
Share premium		16,692	10,936	13,322
Statutory reserves		53	53	53
Other reserves		-1,243	-905	-1,105
Retained earnings		-37	-6,552	-2,962
Equity attributable to equity shareholders		34,156	19,295	26,499
Minority interests	(14)	0	0	0
Total equity		34,156	19,295	26,499
Equity and liabilities		67,370	36,712	62,465

CONSOLIDATED PROFIT AND LOSS ACCOUNT
SIX MONTHS ENDED 30 JUNE 2007

	NOTES	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
		T€	T€	T€
Revenue		56,214	31,499	78,933
Cost of sales	(3)	36,801	21,337	51,997
Gross profit		19,413	10,162	26,936
General and administrative expenses	(3)	8,943	4,719	12,185
Sales and marketing expenses	(3)	3,931	2,115	5,666
Research and development expenses	(3)	1,811	1,428	3,351
Profit before tax and financing result (EBIT)		4,728	1,900	5,734
Finance income		201		103
Finance costs		636		768
Net interest	(4)	-435	-199	-665
Profit before taxes (PBT)		4,293	1,701	5,069
Income tax	(5)	1,369	604	383
Profit for the year		2,924	1,097	4,686
Attributable to:				
Equity shareholders		2,924	1,097	4,686
Minority interests	(14)	0	0	0
Consolidated profit for the year		2,924	1,097	4,686
Earnings per share, undiluted (€)	(6)	0.16	0.07	0.28
Earnings per share, diluted (€)	(6)	0.16	0.07	0.28
Adjusted earnings per share (€), for comparison only	(6)	0.19	0.10	0.28

**CONSOLIDATED CASH FLOW STATEMENT
SIX MONTHS ENDED 30 JUNE 2007 (IFRS)**

	NOTES	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
		T€	T€	T€
Net cash flow from operating activities				
Profit before taxes		4,292	1,701	5,069
Add back for				
Depreciation and amortisation		1,474	1,017	2,772
Profit (Loss) on the sale of fixed assets		0	25	-36
Other non-cash income not affecting payments		-100	3	-1,356
Net interest income		449	96	705
Operating profit before changes in the net current assets		6,115	2,842	7,154
Increase in trade receivables and receivables from partly completed contracts not yet billed		-3,555	-2,543	-5,208
Increase (Decrease) in work in progress, other assets and pre-paid expenses and deferred charges		47	-615	1,225
Increase in trade creditors		91	648	325
Increase in remaining accruals		1,116	116	556
Increase (Decrease) in pension accruals		22	20	-11
Decrease (Increase) in other liabilities and deferred income		-77	-509	-1,043
Cash flow from operating activities		3,759	-41	2,998
Cash effect of foreign exchange rate movements		-14	103	-89
Interest payments		-216	-174	-492
Tax payments		-138	-194	-841
Net cash flow from current business activities		3,391	-306	1,576
Cash flow from investment activities				
Purchase of intangible assets		-1,009	-1,039	-2,874
Purchase of tangible assets		-409	-117	-325
Proceeds from the disposal of subsidiaries		0	0	221
Cash flows arising from business combinations		0	0	-4,463
Transfer into a notary trust account to purchase shares		0	-4,366	0
Proceeds from the sale of tangible assets		0	0	60
Sale/(Purchase) of marketable securities available for sale	(8)	-1,020	5,626	5,610
Foreign currency result		-1	-103	39
Interest received		28	78	63
Net cash flow from investment activities		-2,411	79	-1,669
Cash flow from financing activities				
Proceeds from the issue of share capital		4,817	0	0
Costs for IPO		-98	0	0
Repayment of finance loans	(9)	-4,686	-347	-2,506
Increase of finance loans	(9)	0	0	4,325
Redemption/termination of leasing contracts		0	0	0
Net cash flow from financing activities		33	-347	1,819
Change in the level of funds affecting payments		1,013	-574	1,726
Cash and cash equivalents at the beginning of the period		2,565	839	839
Cash and cash equivalents at the end of the period		3,578	265	2,565

**CONSOLIDATED DEVELOPMENT OF SHAREHOLDERS' EQUITY
SIX MONTHS ENDED 30 JUNE 2007 (IFRS)**

	MINORITY INTERESTS	SHARE CAPITAL	SHARE PREMIUM	STATUTORY RESERVES	OTHER RESERVES	CURRENCY TRANSLATION DIFFERENCES	RETAINED EARNINGS	TOTAL EQUITY
	T€	T€	T€	T€	T€	T€	T€	T€
1 January 2006	0	15,763	10,936	53	-1,108	200	-7,649	18,195
Net gains/losses on available for sale securities					34			34
Currency translation differences						-31		-31
Effects directly recognised in equity					34	-31		3
Profit for the period						1,097		1,097
30 June 2006 (unaudited)	0	15,763	10,936	53	-1,074	169	-6,552	19,295
Capital increase as consideration for business combinations		1,428	2,361					3,789
Currency translation differences						-200		-200
Stock option programme			26					26
Effects directly recognised in equity		1,428	2,387			-200		3,615
Profit for the period							3,589	3,589
31 December 2006 (audited)	0	17,191	13,323	53	-1,074	-31	-2,963	26,499
Capital increase by cash contribution		1,500	3,317					4,817
Currency translation differences						-79		-79
Stock option programme			53					53
Costs for capital increase by cash contribution (net of tax)					-59			-59
Effects directly recognised in equity		1,500	3,370		-59	-79		4,732
Profit for the period							2,924	2,924
30 June 2007 (unaudited)	0	18,691	16,693	53	-1,133	-110	-39	34,155

Notes to the financial information at 30 June 2007 (unaudited)

1. Summary of significant accounting policies

1.

Basis of preparation

The Interim Consolidated Financial Statements of SQS and its subsidiary companies ("SQS Group") are prepared in conformity with all IFRS Standards (International Financial Reporting Standards, formerly IAS = International Accounting Standards) and Interpretations of the IASB (International Accounting Standards Board) which are mandatory at 30 June 2007, whereas the interim reports are published in an abbreviated form according to IAS 34. The same accounting and valuation method used for the 2006 annual Consolidated Financial Statements was applied. The Interim Consolidated Financial Statements have neither been audited nor reviewed.

The financial information has been prepared on the historical cost basis. Further information about the Group's accounting principles and policies is contained in the SQS Consolidated Financial Statement at 31 December 2006. The financial information is presented in Euro and amounts are rounded to the nearest thousand (T€) except when otherwise indicated.

Statement of compliance

The financial information of SQS and its subsidiaries (together the "SQS Group") has been prepared in accordance with IFRS as adopted for use in the EU.

Basis of consolidation

As at 30 June, the Company held interest in the share capital of more than 20% of the following undertakings:

	COUNTRY OF INCORPORATION	SIX MONTHS ENDED 30 JUNE 2007	SIX MONTHS ENDED 30 JUNE 2006	YEAR ENDED 31 DECEMBER 2006
		SHARE OF CAPITAL	SHARE OF CAPITAL	SHARE OF CAPITAL
		%	%	%
SQS Group (UK) Limited (formerly SIM Group Limited), Woking	UK	100.0	100.0	100.0
SQS Group Limited (formerly Cresta Group Limited), London, since 1 July 2006	UK	100.0	-	100.0
SQS Software Quality Systems (Ireland) Ltd., since 1 July 2006	Ireland	100.0	-	100.0
SQS Nederland BV, Zaltbommel	The Netherlands	90.5	90.5	90.5
SQS GesmbH, Vienna	Austria	100.0	100.0	100.0
Software Quality Systems (Schweiz) AG, Zug	Switzerland	97.0	97.0	97.0

3% of the shares in SQS Software Quality Systems (Schweiz) AG are held for legal reasons by members of the Board of this entity in accordance with the interests of SQS.

Use of estimates

The preparation of the Interim Financial Statements in compliance with the International Financial Reporting Standards requires the disclosure of assumptions and estimates made by the management, which have an effect on the amount and the presentation of the assets and liabilities shown in the balance sheet, the income and expenditure as well as any contingent items. The actual results may deviate from these estimates.

The main estimates and judgements of the management of SQS refer to:

- the useful life of intangible assets and property, plant and equipment
- the valuation of the liability from the Cresta purchase
- deferred taxes on losses carried forward
- the valuation of pension assets and liabilities

2. Segmental reporting

2.

The following tables present revenue and profit information regarding SQS Group's business segments for the interim period ended 30 June 2007 and 30 June 2006 and for the year ended 31 December 2006.

SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

	GERMANY	UK-BASED BUSINESS	SWITZERLAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	26,132	22,461	5,951	1,670	56,214
Internal sales between the segments	1,209	161	200	230	1,800
Result					
Segment result	2,064	2,235	466	-37	4,728
Consolidation					0
Financial result					-435
Taxes on income					-1,369
Result for the period					2,924
Profit share of minority shareholders					0
Result of the Group for the period					2,924

SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

	GERMANY	UK-BASED BUSINESS	SWITZERLAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	20,265	4,433	4,985	1,816	31,499
Internal sales between the segments	1,566	535	69	30	2,200
Result					
Segment result	1,279	205	354	52	1,890
Consolidation					10
Financial result					-199
Taxes on income					-604
Result for the period					1,097
Profit share of minority shareholders					0
Result of the Group for the period					1,097

**YEAR ENDED 31 DECEMBER
2006 (AUDITED)**

	GERMANY	UK- BASED BUSINESS	SWITZER- LAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	41,859	23,744	9,801	3,529	78,933
Internal sales between the segments	3,263	2,379	355	167	6,164
Result					
Segment result	2,547	2,468	791	-72	5,734
Consolidation					0
Financial result					-665
Taxes on income					-383
Result for the period					4,686
Profit share of minority shareholders					0
Result of the Group for the period					4,686

3. Expenses**3.**

The Consolidated Income Statement presents expenses according to function. Additional information concerning the origin of these expenses, by type of cost, is provided below:

Cost of material

The cost of material in the interim period ended 30 June 2007 amounted to €7,334t (at mid-year 2006: €3,552t). Cost of material relates mainly to the procurement of external services such as contract software engineers. In addition, certain project-related or internally used hardware and software is shown under cost of material.

**EMPLOYEE BENEFITS
EXPENSES (UNAUDITED)**

	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	T€	T€	T€
Wages and salaries	28,356	15,647	38,604
Social security contributions	3,596	2,172	5,376
Expenses for retirement benefits	198	450	461
	32,150	18,269	44,441

The expenses for retirement benefits include the change in pension accruals and other retirement provisions such as direct insurance and provident fund costs.

Amortisation and depreciation

Amortisation and depreciation charged in the interim period ended 30 June 2007 amounted to €1,474t (at mid-year 2006: €1,016t). Of this, €978t (at mid-year 2006: €803t) was attributable to the amortisation of development costs.

4. Financial result

4.

The financial result is comprised as follows:

FINANCIAL RESULT	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	T€	T€	T€
Interest income	66	78	63
Exchange rate gains	12	6	40
Total finance income	78	84	103
Interest payable	-515	-174	-768
Exchange rate losses	2	-109	0
Total finance costs	-513	-283	-768
Financial result	-435	-199	-665

Finance income results from fixed deposit investments and investments in securities maturing in the short term which yield interest income, or securities negotiable at short notice. Interest payable relates to interest on bank liabilities and liabilities from the Cresta purchase. Finance income and expenses are stated after foreign exchange rate gains and losses.

The interest income contains the interest income of €39t from increase in the present value of the corporation tax receivable in accordance with § 37 KStG (German corporation tax law).

5. Taxes on earnings

5.

The line item includes current tax expenses in the amount of €934t (previous interim period: €172t) and deferred tax expenses in the amount of €435t (previous interim period: €432t).

Further information about the recognition and measurement of the income tax is contained in the SQS Consolidated Financial Statements at 31 December 2006.

6. Earnings per share

6.

The earnings / (loss) per share presented in accordance with IAS 33 are shown in the following table:

SHARE	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	T€	T€	T€
Profit for the year attributable to equity shareholders, T€	2,924	1,097	4,686
Diluted profit for the year, T€	2,924	1,097	4,686
Weighted average number of shares in issue, undiluted	17,920,105	15,763,080	16,471,084
Weighted average number of shares in issue, diluted	18,614,683	15,815,880	16,683,328
Undiluted profit per share, €	0.16	0.07	0.28
Diluted profit per share, €	0.16	0.07	0.28
Adjusted earnings per share (for comparison only), €	0.19	0.10	0.28

Undiluted earnings per share are calculated by dividing the profit for the six-month period attributable to equity shareholders by the weighted average number of shares in issue during the six-month period ended 30 June 2007: 17,920,105 (at mid-year 2006: 15,763,080).

Diluted earnings per share are determined by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue plus any share equivalents which would lead to a dilution.

Adjusted earnings per share were calculated by adding back deferred taxes and IFRS tax differences as well as interest on Cresta liabilities (previous year IPO costs) to the profit, divided by the number of shares issued as at 30 June 2007 (18,690,823 shares, previous year 15,763,080 shares).

7. Intangible assets

7.

The item is comprised as follows:

BOOK VALUES	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	T€	T€	T€
Goodwill	28,313	11,589	28,313
Development costs	2,511	2,287	2,565
Software	640	212	758
Remaining intangible assets	2	45	33
Intangible assets	31,466	14,133	31,669

Development costs were capitalised in the interim period ended 30 June 2007 in the amount of €922t (half-year 2006 €1,010t) and amortised over a period of 36 months, since the conditions under IAS 38 were fulfilled. The amortisation of development costs is contained in the costs for research and development. The amortisation of software and remaining intangible assets as well as the impairment losses under IAS 36 are spread over the functional costs in accordance with an allocation key.

8. Property, plant and equipment

8.

The development of the tangible assets of SQS Group is presented as follows:

PROPERTY, PLANT AND EQUIPMENT	SIX MONTHS ENDED 30 JUNE 2007	SIX MONTHS ENDED 30 JUNE 2006	YEAR ENDED 31 DECEMBER 2006
	(UNAUDITED)	(UNAUDITED)	(AUDITED)
	T€	T€	T€
BOOK VALUES			
Freehold land and buildings	228	187	210
Office and business equipment	974	534	847
Property, plant and equipment	1,202	721	1,057

9. Marketable securities, cash and cash equivalents

9.

Cash and cash equivalents comprise cash and credit balances at banks which can be realised in the short term, and which earn commercial rates of interest.

The development of cash and cash equivalents is presented in the Consolidated Cash Flow Statement.

The portfolio of marketable securities of SQS Group contains investments in money market funds. They are held available for sale.

The valuation of the securities is made at the attributable current value on the basis of the market rates at the balance sheet date. Changes in the attributable values are recorded directly in equity.

10. Bank loans, overdrafts and other loans

10.

The finance liabilities are comprised as follows:

FINANCE LIABILITIES	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	T€	T€	T€
Bank loans and overdrafts	989	4,578	5,330
Current finance liabilities	989	4,578	5,330
Bank loans	109	1,822	465
Non-current finance liabilities	109	1,822	465
Total finance liabilities	1,098	6,400	5,795
Of these, secured	1,015	4,328	3,075

The current account liabilities exist both with SQS Software Quality Systems AG and its subsidiaries. For some subsidiaries bank overdraft agreements are in place.

The current account liabilities to bank are secured on the assets of the Company and those of its subsidiary undertakings.

The interest rate for the current bank loan is Euribor +1.25%. As security for this bank loan, the shares in SQS Group (UK) Ltd. were pledged in a pool contract jointly for the lenders. Furthermore, under an assignment agreement all current and future trade receivables of SQS Software Quality Systems AG were assigned to Deutsche Bank AG.

11. Other liabilities

11.

The item is comprised as follows:

OTHER CREDITORS	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	T€	T€	T€
Liabilities in regard to social security	641	360	716
Personnel liabilities (holiday, bonus claims)	5,860	3,501	5,620
Obligations from Cresta purchase	10,921	0	10,661
Remaining other liabilities	2,490	1,268	2,018
Deferred income	-9	131	162
Bonded loans	2,942	0	2,940
	22,845	5,260	22,117

The remaining other liabilities comprise trade accruals and other items due in the short term.

SQS has liabilities from the Cresta purchase in total of €10,921t. The non-current liability has an amount of €3,617t. For further details see SQS Consolidated Financial Statement at 31 December 2006.

The bonded loan represents a nominal amount of €3,000t. The loan payment was reduced by a discount of €63t. The discount is set off against the loan in accordance with IAS 39.AG 65. The discount is resolved annually following IAS 39 AG 65 and has a book value of €58t. The interest rate is agreed at 6.93% p.a. The redemption is due in 2012. The Deutsche Bank AG acts as appointed paying agent. The Deutsche Bank is entitled to assign the bond to a special purpose entity, a trustee thereof, a bank or an insurance company. The interest rate is linked to the rating of the SQS Group following a defined rating system. If the SQS Group improves the rating the interest rate will be decreased. If the rating decreases below a certain bound the creditors have the right to terminate the bonded loan immediately.

12. Other provisions

12.

Other provisions in the amount of €221t (31 December 2006: €188t) include the warranty costs in the amount of €63t (31 December 2006: €30t) and the vacant property provision in the amount of €158t (31 December 2006: €158t).

13. Equity

13.

SQS is listed on the AIM market in London and on the Open Market in Frankfurt (Main).

The development of the equity is presented in the Consolidated Development of Shareholders' Equity.

Subscribed Capital

The subscribed capital amounts to €18,690,823 (at 31 December 2006: €17,190,823). It is divided into €18,690,823 (at 31 December 2006: €17,190,823) individual registered shares with an arithmetical share in the share capital of €1 each. Each share entitles the holder to one right to vote. No preference shares have been issued. The capital is fully paid up.

The movements in the issued share capital are as follows:

SUBSCRIBED CAPITAL	INDIVIDUAL SHARES	NOMINAL VALUE
	Number	€
As at 30 June 2006	15,763,080	15,763,080
Increase in capital against contribution in kind In the form of shares in Cresta Group Limited (entry of 3 July 2006)	1,427,743	1,427,743
As at 31 December 2006	17,190,823	17,190,823
Increase in capital against contribution in cash (Entry of 3 April 2007)	1,500,000	1,500,000
As at 30 June 2007	18,690,823	18,690,823

By resolution of the General Meeting of 12 July 2005, the Management Board was authorised to increase the share capital by €1,500,000 up until 12 July 2010 with the approval of the Supervisory Board, either through one single or several issues of newly registered non-par-value shares in return for cash or contributions in kind (Authorised Capital II).

The Management Board resolved on 21 March 2007 to use this authorisation on the increase of the share capital from €17,190,823 by €1,500,000 to €18,690,823 by issuance of 1,500,000 new registered non-par-value shares against contribution in cash. The Supervisory Board consented to this resolution. The capital increase was registered on the Commercial Register on 3 April 2007.

Conditional capital

The General Meeting of 12 April 2002 resolved the conditional increase in the share capital by an amount of up to €31,112. The resolution became effective with the entry of 6 June 2002. Following the increase in capital, the conditional capital amounted to €43,556.80 as at 16 August 2005 and to €74,668.80 as at 20 September 2005. By resolution of the General Meeting of 14 September 2005 and the subsequent entry in the Commercial Register of 23 September 2005, the existing conditional capital was revoked and increased again by €52,800.

The conditional capital serves as security for convertible bonds.

The General Meeting of 2 June 2006 resolved a new conditional capital by an amount of up to €1,500,000 by issuance of up to 1,500,000 new individual registered shares (Conditional Capital II). The conditional capital II serves to grant up to 1,500,000 share options until 31 December 2008 as incentive compensation for SQS employees and executives. This resolution became effective with the entry of 30 June 2006.

Authorised capital

As described above the Management Board resolved on 21 March 2007 using in accordance with § 4.5 of the articles of association of SQS the authorisation on the increase of the share capital until 12 July 2010 by issuance of 1,500,000 new registered non-par-value shares against contribution in cash (Authorised Capital II).

Thereafter, the authorised capital developed as follows:

AUTHORISED CAPITAL		T€
As at 30 June 2006		7,882
Usage of authorised capital I		-1,428
As at 31 December 2006		6,454
Usage of authorised capital II		-1,500
As at 30 June 2007		4,954

Statutory reserves

The statutory reserves in SQS AG were formed in accordance with Section 150 of the Stock Corporation Act (Germany).

Other reserves

The foreign currency translation differences arise on conversion of the opening reserves of subsidiary undertakings where the functional currency of the subsidiary is not the Euro.

Retained earnings

Retained earnings represent the accumulated retained profits less losses of SQS Group.

Convertible bonds with conversion rights

SQS has, on the basis of the resolution of the General Meeting of 14 September 2005, undertaken to grant the vendor of the shares in SQS Group (UK) Ltd convertible bonds in a total nominal amount of €53t, divided into 52,800 convertible bonds of a nominal value of €1.00 each, if the party entitled pays into SQS the nominal amount of €1.00 per share. The exercise of the right of conversion expires on 31 July 2008. Up until completion of the preparation of these Financial Statements, the party entitled had not exercised this right.

14. Minority interests**14.**

There is no change in this item compared to 30 June 2006.

Up to 2003, losses applicable to the minority have exceeded the minority interest in the subsidiary's equity. In accordance with IAS 27.35 the excess and any further losses applicable to the minority have been allocated against the majority interest. In the case that the subsidiary reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. In the interim period ended 30 June 2007 minority profits were allocated to the majority in the amount of €2t (half year 2006: €0).

15. Notes to the cash flow statement**15.**

The cash flow statement shows how the funds of the Group have changed in the course of the business year through outflows and inflows of funds. The payments are arranged according to investment, financing and business activities.

The sources of funds on which the cash flow statement is based consist of cash and cash equivalents (cash on hand and bank balances).

16. Related party transactions

16.

Under IAS 24, related persons and related companies are persons and companies who have the possibility of controlling another party or exercising significant influence over their finance or business policy. In the SQS Group, these are the Management Board members as well as the members of the Supervisory Board, Mr and Mrs Bons and Mr and Mrs van Megen, by reason of their position as shareholders, as well as the real estate investment fund "S.T.O.L. Immobilien Verwaltung GmbH & Co. KG", Cologne, and "Am Westhover Berg GbR mbH", Cologne.

DETAILS OF INDIVIDUAL SHARES

	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2006 (AUDITED)
	Non-par shares	Non-par shares	Non-par shares
Heinz Bons, Member of the Management Board	3,295,945	3,295,945	3,295,945
Maria Helene Bons, née Peters	932,544	932,544	932,544
Rudolf van Megen, Member of the Management Board	3,657,647	3,657,647	3,657,647
Ilona van Megen, née Rumsch	932,544	932,544	932,544
René Gawron, Member of the Management Board	2,289	2,289	2,289
Supervisory Board	17,500	27,100	17,500
Total	8,838,469	8,848,069	8,838,469

In detail, the following transactions have taken place with these persons and companies:

The married couples Bons and van Megen receive dividends if these are paid and emoluments as shareholders of SQS. Mr Bons and Mr van Megen are Management Board members.

In addition, Mr Bons administers on trust alone (in Germany) and jointly (in the UK) with a senior executive of SQS Group (UK) Ltd a further 113,070 shares (half-year 2006: 113,070 shares) within the framework of the employee participation programme.

As a part of the remuneration for Management Board activities, SQS has granted a pension commitment to two Management Board members. These pension plans amount to €316t (half-year 2006: €325t).

Mr Gawron holds a minority stake of one share in the Swiss subsidiary on trust for SQS Software Quality Systems AG since his office as president of the administrative board of this company makes this necessary under Swiss law.

SQS uses property owned by the closed real estate investment fund "S.T.O.L. Immobilien Verwaltung GmbH & Co. KG", Cologne, and also the real estate investment fund "Am Westhover Berg GbR mbH", Cologne. The shares in the fund are held by employees and also Management Board members of SQS AG. The contractual conditions of the lease of properties are compatible with normal market conditions. The total expenses incurred under these contracts amounted in the interim period to €651t (half year 2006: €647t).

The total emoluments of the Management Board members amounted in the interim period ended 30 June 2007 to €556t (half-year 2006: €484t). The emoluments of the Supervisory Board members amounted in total to €41t (half-year 2006: €41t), of which €41t had not been paid by the end of the interim period.

Members of the Management Board held 37.2% (half-year 2006: 44.1%) of the shares in SQS as at 30 June 2007.

17. Proposed dividend

17.

The General Meeting of 30 May 2007 resolved not to pay any dividend for the business year 2006.

18. Other information

18.

There is currently no litigation that might have significant impact on the earnings situation of SQS AG.

19. Post interim period events

19.

In August 2007 SQS acquired Triton Unternehmensberatung, a private Austrian company specialising in IT consultancy services to the insurance industry, for a total maximum consideration of €15.5m. Trading since 1997, Triton provides IT consultancy services to insurance companies, improving the automation of their back-office processes within Germany, Austria and Switzerland.

In 2006, Triton realised an adjusted profit before tax of €1.4m on turnover of €4.8m, representing a net margin of 29%. The value of the net operating assets to be acquired is approximately €0.5m. Triton engages approximately 35 permanent employees, is based in Vienna, Austria, and has one of the world's leading insurance companies, headquartered in Germany, as its predominant client.

The acquisition comprises an initial consideration of €4.4m in cash, and deferred consideration of up to €11.1m in total, to be paid in a combination of cash and shares (49% cash/51% shares). The deferred consideration is subject to Triton meeting specific earn out targets over the next two years, including profit after tax and revenue with additional customers. Triton has committed to an aggressive growth forecast in order to achieve the earn out targets. In addition, there is a provision for the sellers to agree, at their discretion, to a third year earn out with higher targets.

Cologne, 5 September 2007



Heinz Bons

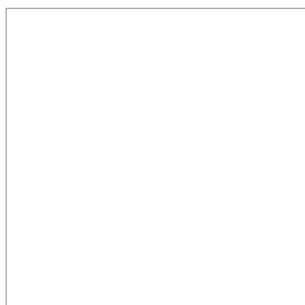
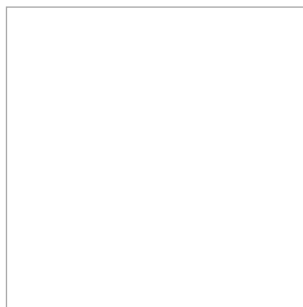
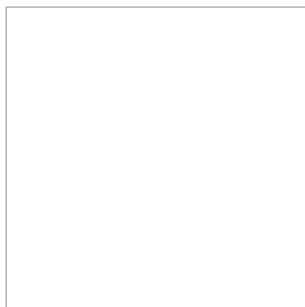


René Gawron



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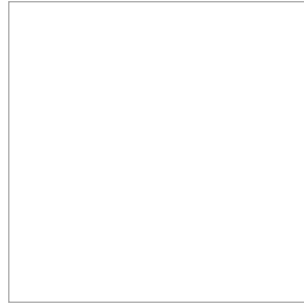
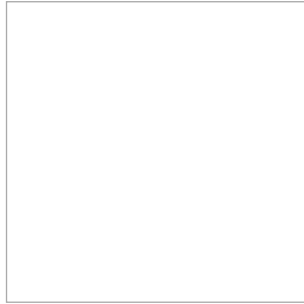
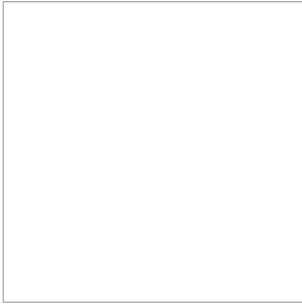
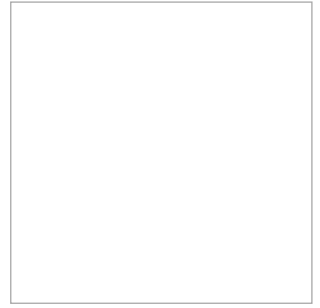
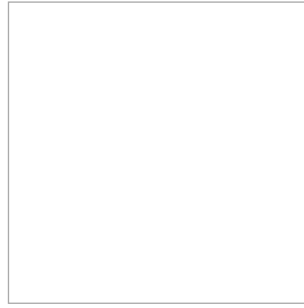
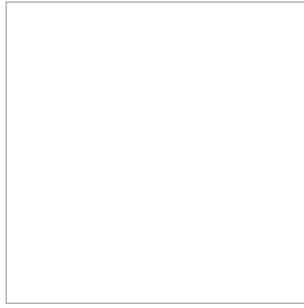
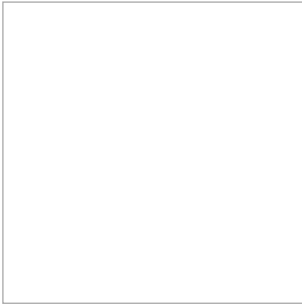
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