

For our customers on the spot.

Interim Report 2008

1 January to 30 June 2008

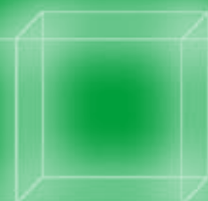
■ One-Stop Quality

Making IT projects more successful and efficient

As the largest global provider of Independent Quality Services, SQS mitigates IT risk and improves the success rate and efficiency of business and software projects across all industries and sectors.

By deploying our international workforce of quality professionals with the best business domain knowledge and software quality practices, SQS focuses on Business Process Optimisation, Software Quality Management, Quality Assurance and Testing.

We will continue to grow our global coverage, our knowledge base, our global delivery capability giving our customers delivery excellence, our employees career and personal growth, and our investors maximum returns.



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for the six months
ended 30 June
2008**

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at 30 June 2008
(unaudited)**

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Interim results for the six months ended 30 June 2008

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 2008.

Financial highlights:

- Turnover up by 23% to €68.9m (H1 2007: €56.2m), five times the European IT Services growth rate for 2008*
- Gross profit up 23% to €23.9m (H1 2007: €19.4m) with gross margin increasing to 34.7% (H1 2007: 34.5%) owing to improved utilisation of staff, success of off-shoring strategy and improved pricing conditions driven by strong market demand
- Adjusted profit before tax up by 45% to €6.7m (H1 2007: €4.6m) with profit margin improving to 9.7% (H1 2007: 8.1%) as a consequence of synergies and improved operational efficiencies resulting from the successful integration of acquisitions
- Adjusted earnings per share grew by 21% to €0.23 (H1 2007: €0.19)
- Cash inflow from operating activities improved by 12% to €4.2m (H1 2007: €3.8m)

Operational highlights:

- Gartner recognition of Independent Software Testing as a distinct sector in its own right, validating the SQS offering: "It seems that independent testing is shaping as a separate market segment." (Gartner, August 2008)
- Investment in 139 new staff - mostly consultants - to support current strong demand for SQS's services and future organic growth of the business
- 78 new client wins against 64 in the same period last year
- Long-term contracts increased to 23 (up from 14 six months ago), driven by blended off-shore solutions
- Mitigated risk by expanding activity into traditionally smaller verticals with particularly strong performance in the automotive and insurance sectors
- Two substantial acquisitions made post the period end expanding the European presence into the Nordic countries and the offshore operations into India

Chief Executive's Statement



I am pleased to present impressive interim results for the first half of 2008, in which SQS once again recorded a, chiefly organic, revenue improvement some five times that of the wider European IT services sector. According to a Market Study by IDC, the European IT Services sector is expected to grow by 4.6% in 2008. SQS recorded revenue growth of 23% to €68.9m (H1 2007: €56.2m) as we continued to experience strong market demand for our specialist independent testing services, resulting in 78 new client wins during the period.

This strong demand saw still further increases in pricing for SQS's services which was only partially reflected in wage inflation. As a result, the gross margin improved by 0.6% to 34.7% (H1 2007: 34.5%) demonstrating that the markets in which we operate remain healthy and implying that software testing constitutes an essential, non-discretionary item within an organisation's IT budget.

Profit margins for the period increased materially with adjusted profit before tax up by 45% to €6.7m (H1 2007: €4.6m), translating to a PBT margin of 9.7% (H1 2007: 8.1%). Much of this improvement was achieved through synergies, efficiencies and economies of scale resulting from the successful integration of prior acquisitions.

We have continued to strengthen our client base, particularly in newer or traditionally smaller verticals, with a record 78 new clients across 22 industries signed during the period. Broadening the diversity of our client base has been a long-term strategic goal which enables us to increase potential opportunities while simultaneously reducing reliance upon a given sector and the success we have had in implementing this strategy is proof of the strength of our offering. The Company has increased its presence in the automotive, insurance, telecom and public sectors which have all performed solidly during the period.

During the period we have increased the number of long-term contracts - those greater than 12 months in duration - to 23, representing 13% of total revenue, up from 11% last year. This has resulted in a greater proportion (approximately 77%) of revenues being of a repeatable nature. Our ability to offer blended on-shore/off-shore solutions has had a particularly positive effect on this aspect of the business as clients are keen to lock-in to the economic benefits such solutions can offer.

Off-shore solutions also provide higher margin business for us and the expansion of our off-shore facilities constitutes a central part of our strategy. We were therefore pleased to acquire Verisoft, post the period end, which added an India based operation of some 150 staff members to our existing portfolio of offshore operations in Egypt and South Africa. This acquisition is of particular strategic importance as many global organisations have outsourced either all or part of their development to the region.

We continued to invest in growth, increasing the number of staff during the period by 139 (of which 134 are revenue generating consultants) to a total of 1,151. This compares to a total of 860 at the same time last year and 1,012 at the 2007 year end. Additional administration costs incurred by the hiring and training of new staff has been more than offset by improvements in pricing and staff utilisation, hence the improvements to the gross margin.

We are also pleased to report that in an independently commissioned study Gartner declared "independent testing is shaping as a separate market segment". Educating the market as to the importance of employing independent software testing specialists, distinct from any development function, in order to provide a thorough, objective and ultimately higher quality service, has been a key goal of our marketing efforts. This recognition, therefore, is testament to our success in marketing our offering, particularly through our increasingly popular conferences and events. It is also representative of the growing realisation within industry of the importance of the SQS offering.

Finally, we continue to further enforce our position as market leaders with our revenues now more than three times those of our nearest independent software testing competitor. This position is predicted to strengthen still further in the second half with an expected positive contribution from the post period acquisition of Validate, which gives SQS additional operations in the mature markets of Sweden, Finland and Norway.

Dividend

SQS proposes to continue to operate a dividend policy in line with earnings. However, in accordance with German law, the Company may only pay one dividend in each financial year and therefore SQS expects to declare a dividend following the announcement of our final results for the year ending 31 December 2008.

Business strategy

Our strategy is to build upon our market position as the global leader in independent software testing and quality management services. While retaining our focus on the European market, we will continue to look at opportunities to further extend into the Asiatic and Oceanic regions, as we did with our acquisition in India, to exploit offshore as well as local business opportunities.

One aspect of this strategy involves increasing long-term outsourcing contracts to provide greater visibility of revenues. Our ability to provide blended onshore-offshore solutions has helped us to increase the number of long term contracts during the period, leading to greater levels of repeat revenues of approximately 77%. We have continued to build upon this strategy since the period end by expanding our offshore operations with the acquisition of Verisoft in India.

We plan to continue our investments into new and expanding markets and, with 32 services, we offer the largest portfolio of solutions among our competitors (as confirmed by the PAC market study on software testing 2008) in an ever greater diversity of verticals. New offerings such as management consulting are proving especially successful for SQS, helping to connect our quality services to the business departments ("Quality meets Business"). In addition, SQS is not reliant on business partners or third parties for securing contracts, instead utilising our own sales and marketing resources and existing relationships with clients. This also provides us with an excellent platform from which to cross-sell additional services into our clients.

A further aspect of our strategy is to strengthen our position in key European markets. This has been achieved through considerable organic revenue growth across all European geographies during the period and with the acquisition of Validate in Sweden, giving us access to the Nordic markets which have a mature understanding of the benefits of independence within testing services.

We will continue to look actively for acquisitions to support and accelerate our strategic goals going forward.

The Company's strategy is centred on five strategic business areas, all of which contribute to market leadership as a service company and the resulting improvements in shareholder value. These 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 are continuously developing our range of offerings. They are:

- **Professional services for business and IT:** SQS offers over 32 software testing and quality management services, considerably more than any of our competitors. Newer offerings such as management consulting or licence compliancy management help the Company to forge relationships at the highest level with clients and give us greater influence over the projects on which we work creating plentiful opportunities to cross sell additional services. Many of these newer services are attaining rapid growth rates at present, though from a smaller base than our traditional testing services.
- **Tools, licences, and maintenance:** Our tools are unique in the market and have been developed around our 26 years experience of testing software projects, resulting in a product set that provides consistent and measurable results, and where several components are integrated into other market leading tools. Software and maintenance accounts for some 1.4% of our turnover.
- **IT training:** Revenue from training expanded in line with the Company's growth rate during the period. New offerings introduced by SQS during the first half of the year, such as Requirements Management, saw a high demand for personal certification in this field, as necessitated by the IREB (International Requirements Engineering Board). New qualifications such as QAMP (Quality Assurance Management Professional) were also introduced during the period. As well as offering training for this qualification, SQS has also chosen to be one of the first Professional Service Organisations to demand QAMP certification for its own employees.
- **Conferences and events:** We held successful SQC conferences (Software and Systems Quality Conferences), the largest quality management and software testing events in Europe, in 5 cities during the period. Our next conference will be in London on September 29 - 30 2008 and our first conference outside Europe, in Canberra, Australia, will be held in late October 2008. These events have proved an excellent marketing tool for SQS and are helping to raise awareness among organisations of the benefits an independent body can bring in providing an impartial, and therefore more effective, level of testing to software projects.

Acquisitions

Validate, headquartered in Sweden

We announced our agreement to purchase 100% of the issued share capital of Validate Group, a software testing and quality management business headquartered in Sweden, on 11 June 2008, and completed the acquisition on 2 July 2008.

Maximum consideration for the Acquisition will be Swedish Krona (SEK) 153.3m (€16.4m) of which, 25% will be satisfied in cash and up to 75% can be satisfied by the issue of new SQS ordinary shares to the vendors. An initial consideration of SEK68.1m (€7.3m) was paid on Closing.

In addition to its headquarters in Sweden, Validate has operations in Norway and Finland, providing SQS with access to the Nordic markets with their mature understanding of the benefits of independence within testing services and in line with SQS's strategy of further expansion into European markets. The acquisition is also of high strategic importance to Validate's management who recognised the benefits of scale and off-shoring facilities in attracting larger, longer term contracts. As a result, the acquisition is expected to be immediately earnings enhancing and whilst there has been no financial effect on these interim results.

Validate is one of the leading providers of software testing in Scandinavia and Finland with approximately 70 staff and 20 customers including many of the region's blue chip corporations. In the year ended 31 December 2007 Validate generated profit before tax of €0.3m on revenues of €4.6m and is expected to generate profit before tax of €0.8m on revenues of €8.0m in the current year. As at 31 December 2007, Validate had net assets of €0.4m.

Verisoft, India

We announced the agreement to acquire 75% of the issued share capital of VeriSoft, a leading provider of software testing and quality assurance services within India, on 16 June 2008. The maximum consideration for the acquisition is €1.8m of which 44% will be satisfied in cash and 56% in shares, which includes an initial cash payment of €0.61m. We retain the option to purchase the remaining shares in the Company between April 2011 and April 2016 for a consideration determined by Verisoft's Profit after Tax performance.

The acquisition is of strategic significance to SQS as it leaves us better positioned to benefit from the increasing customer requirement for blended on and off-shore testing solutions. The acquisition considerably increases our off-shoring capacity while further improving our coverage of multiple languages and time zones. Also, it will allow SQS to provide an improved level of support to its, mainly UK, customers who have located their test management operations in India.

VeriSoft has approximately 150 staff headquartered in Pune, a major software development region in India. The Company also has a small operation in the US and brings with it our first US clients. Furthermore, as opposed to purely testing software projects, the acquisition enters SQS into the growing market for the testing of packaged software products and computer games.

The acquisition, completed on 4 July 2008, had no effect on the results for the first half of 2008. However, we expect the acquisition to have a material impact upon the sales of our blended onshore/offshore solutions during the second half of the year.

The Company also announced the completion of the two year earn out period on 30 June 2008 associated with the acquisition of Cresta Limited. The targets set for the period were exceeded by a significant margin, demonstrating the resounding success of the acquisition. The final figures for the earn out payment are still to be confirmed.

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 IDC in 2008 showed the European growth rate for IT services to be 6.4% in 2007, with 4.6% expected for 2008. SQS reported growth of 23% for 2008 owing to our ability to successfully exploit many of the factors that drive the market for software testing.

It is currently the case that a significantly high proportion of IT projects (19% according to the latest Standish report) result in failure, either as a consequence of inadequate investment resulting in budget or time constraints or from a lack of impartiality during the testing process.

The reality of this situation has been demonstrated by a number of high-profile project failures in the media over recent months. Such events are helping to raise awareness within industry of the importance of independence in providing effective software testing solutions and this increased awareness was evident in a recent study by Gartner in which Independent Software Testing was described as a potential sector in its own right: "More and more companies look into independent testing as the offerings of an increasing number of service providers mature. It seems that independent testing is shaping as a separate market segment".

The ubiquity of software project failures has also prompted the imposition of many new regulations on IT systems by directives such as Basel II, SOX or MiFID Markets in Financial Instruments Directive. This provides further impetus to organisations to seek out testing providers that can supply effective, measurable and consistent solutions that are independent from the development of the project and are therefore not compromised by their vested interest in the project's success.

The Board

During the period we were pleased to announce the appointment of David Cotterell, CEO of SQS UK, Ireland and South Africa, to the Management Board of SQS. Prior to working for SQS David was Managing Director of Cresta Ltd, SQS's successful acquisition made in 2006. The appointment became effective on 1 July 2008. There were no further appointments to either the Management Board or the Board during the period. Heinz Bons left the Management Board effective as of 31 December, 2007.

Employees

On behalf of the board, I would like to take this opportunity to thank all our employees for their excellent commitment, contribution and hard work during the first half of the year. I would also like to welcome aboard the new employees who have joined SQS during the period, bringing with them skills and initiatives that I am confident will contribute positively to the Company going forward.

Outlook

We experienced robust demand for our services during the first half of 2008 and the healthy market conditions are showing no sign of abating at present. The second half has already started strongly with a number of significant contracts signed.

Furthermore, the two acquisitions made post the period end are expected to have a positive impact upon the performance in the second half. Following our previous success in integrating acquisitions, the enlarged group is well positioned to leverage growth and as a result we expect to again exceed current market forecasts for the full year and look forward to the future with confidence.



Rudolf van Megen
Chief Executive Officer
4 September 2008

Financial Review



Summary

Turnover for the Group was up by 23% to €68.9m (H1 2007: €56.2m) during the period. Geographically, we saw revenue growth across all of the countries in which we operate. In Germany, our largest market, we achieved significant top line growth of 29.9%. We also performed strongly in Switzerland with revenue growth of 15.6% and continued our penetration of the UK, Ireland and South African markets, recording an increase in sales of 6.4%. Most of the above growth rates were organic.

Other European Countries recorded a 148% increase in turnover, the bulk of which came from the successful acquisition last August of Triton in Austria, which has now been fully integrated into the Group.

Germany

Revenue in Germany, our largest market, amounted to €33.9m (H1 2007: €26.1m), a rise of 29.9%. Growth was mostly organic and the performance is a reflection of our market leading presence in the region coupled with strong market demand which was enhanced by our Homeshore centre in Goerlitz.

United Kingdom/Ireland/South Africa

We continue to make good progress within the UK based businesses market, with revenues rising 6.4% to €23.9m (H1 2007: €22.5m). Following the successful integration of the Cresta acquisition, we are now focused on continuing to drive organic growth in the region, which represented 34.7% of total revenues during the period. The solid performance included contributions from some key contract wins including that with Anglo Irish Bank, Ireland's third largest bank announced in May.

Switzerland

Operations in Switzerland generated a 15.6% rise in revenue, all of which was organic, to €6.9m (H1 2007: €6.0m), such that the region now represents 10% of total revenues.

Other Countries

We have seen the most significant revenue growth in Other European Countries, which consists primarily of Austria and the Netherlands. Revenues in these markets increased 148.0% to €4.1m (H1 2007: €1.7m), however the bulk of this growth was due to the acquisition of Triton in Austria which was made in August 2007 and therefore did not contribute to revenues in the comparable period last year.

Triton has proved a particularly successful acquisition to date. It has enhanced our management consulting business enormously, providing many cross-selling opportunities as well as enabling us to foster relationships with clients at the top level and improve our influence upon the projects on which we work.

New Geographies

Post the period end we acquired Verisoft of India which adds to our existing portfolio of offshore operations in Egypt and South Africa. Validate of Sweden was also acquired after the period end, giving us a presence in the Nordic countries where previously we had none. We expect these acquisitions to make a positive contribution to revenues for the full year.

Margins and Profitability

Gross profit continued to improve rising 23.1% to €23.9m (H1 2007: €19.4m), with gross margin now standing at 34.7% (H1 2007: 34.5%). This rise is primarily due to pricing improvements and continued high utilisation of staff.

Adjusted profit before tax for the period was €6.7m (H1 2007: €4.6m), an increase of 45.4%. We saw a significant improvement in the profit margin which grew to 9.7% (H1 2007: 8.1%) largely as the consequence of cost savings resulting from synergies and economies of scale provided by prior acquisitions.

Adjusted earnings per share grew by 21% to €0.23* (H1 2007: €0.19).

Costs

General & Administrative expenses totalled €10.9m (H1 2007: €8.9m) falling slightly as a proportion of sales to 15.8% (H1: 2007 15.9%). Cost savings resulted chiefly from improved operational efficiencies and economies of scale brought about by the successful integration of former acquisitions.

Sales & Marketing costs for the period were €4.8m (H1 2007: €3.9m) falling to 6.9% as a proportion of sales (H1 2007: 7.0%). This proportionately lower expense resulted from economies of scale, as the growing business does not require a relative growth in marketing costs to effect the same results, while sales costs are almost the same.

Finally our Research & Development expense was reduced to €1.4m (H1 2007: €1.8m) representing 2.1% (H1 2007: 3.2%) of revenues. The reduction in spending on R&D was due to a more efficient use of research resources. Further to this, some additional work was carried out by innovation groups composed of SQS consultants, whose efforts were not expensed as R&D.

Cash Flow and Financing

Cash flow from operating activities continued to improve to €4.2m (H1 2007: €3.8m), primarily as a consequence of continuing improvements to the management of debtors and creditors. Debtor days reduced to 65 (H1 2007: 70) as a result from continued improved invoicing processes and collection.

The share capital was reduced by €4.3m during the period as the result of the dividend payment in May 2008, while the termination of leasing contracts reduced cash by a further €0.2m. The increase of finance loans returned €2.6m in cash, resulting in a net cash outflow for the first 6 months of 2008 of €1.8m.

Balance Sheet

We closed the period with €1.8m (H1 2007: €3.6m) of cash on the balance sheet with borrowings standing at €2.9m (H1 2007: €1.1m). These movements resulted chiefly from the dividend payment of €4.3m and acquisition related payments of €2.7m for Validate and €0.6m for Verisoft during the period.

*(calculated by adjusting the profit after tax for the corporate income tax assets, deferred taxes, the pro forma interest cost of the Cresta and Triton purchase obligations and amortisation cost of the acquired customer relationship as part of a business combination Triton.)

Taxation

A tax charge of €1.7m includes current tax expenses of €1.8m (H1 2007: €0.9m) and deferred tax income of €0.1m (H1 2007: (€0.4m)).

For the full year, we expect an actual tax rate of 28% and a rate of 28% in 2009.

Foreign Exchange

Approximately 55% of the Company'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 2008 was used.

Foreign exchange had a negative impact on earnings for the period. Had the Pound/Euro exchange rate remained the same as in H1 2007 our UK revenues for the period would have been €2.8m higher, translating to an additional €0.54m PBT. Despite this, SQS still reported EPS of €0.23 representing growth of 21% (H1 2007: €0.19m). Were there to have been no effect from the exchange of currencies on our results the earnings number would have been €7.2m and the profit growth rate 57%, demonstrating the strong underlying health of our business.

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.

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 2008, whereas the interim reports are published in an abbreviated form according to IAS 34. The same accounting and valuation method used for the 2007 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 2008 were prepared in accordance with uniform accounting and valuation principles in Euros.



René Gawron
Chief Financial Officer
4 September 2008

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008 (IFRS)

	NOTES	30 JUNE 2008 (UNAUDITED)	30 JUNE 2007 (UNAUDITED)	31 DECEMBER 2007 (AUDITED)
		T€	T€	T€
Current assets				
Cash and cash equivalents	(9)	1,774	3,578	7,220
Marketable securities	(9)	0	1,020	0
Trade receivables		27,958	25,785	27,173
Other receivables		5,691	1,290	1,000
Work in progress		2,745	36	139
Income tax receivables		131	94	157
		38,299	31,803	35,689
Non-current assets				
Intangible assets	(7)	6,391	3,153	5,999
Goodwill	(7)	45,980	28,313	45,977
Property, plant and equipment	(8)	2,664	1,202	2,243
Income tax receivables		1,547	1,464	1,512
Deferred taxes		651	1,435	867
		57,233	35,567	56,598
Total assets		95,532	67,370	92,287
Current liabilities				
Bank loans and overdrafts	(10)	2,827	989	191
Finance lease		406	0	515
Trade creditors		5,010	3,250	3,547
Other provisions	(12)	78	109	102
Tax accruals		2,161	1,385	1,668
Tax liabilities		2,967	3,110	3,745
Other current liabilities	(11)	23,216	16,270	24,162
		36,665	25,113	33,930
Non-current liabilities				
Bank loans	(10)	102	109	105
Finance lease		183	0	279
Other provisions	(12)	241	112	92
Pension provisions		172	316	147
Deferred taxes		1,523	989	1,652
Other non-current liabilities	(11)	7,263	6,575	7,064
		9,484	8,101	9,339
Total liabilities		46,149	33,214	43,269
Shareholders' equity				
	(13)			
Share capital		21,599	18,691	21,546
Share premium		25,204	16,692	25,029
Statutory reserves		53	53	53
Other reserves		-1,189	-1,243	-1,381
Retained earnings		3,716	-37	3,771
Equity attributable to equity shareholders		49,383	34,156	49,018
Minority interests	(14)	0	0	0
Total equity		49,383	34,156	49,018
Equity and liabilities		95,532	67,370	92,287

CONSOLIDATED PROFIT AND LOSS ACCOUNT
SIX MONTHS ENDED 30 JUNE 2007

	NOTES	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
		T€	T€	T€
Revenue		68,867	56,214	121,059
Cost of sales	(3)	44,966	36,801	79,307
Gross profit		23,901	19,413	41,752
General and administrative expenses	(3)	11,271	8,943	19,244
Sales and marketing expenses	(3)	4,765	3,931	8,621
Research and development expenses	(3)	1,450	1,811	3,614
Profit before tax and financing result (EBIT)		6,415	4,728	10,273
Finance income		205	201	556
Finance costs		684	636	1,163
Net interest	(4)	-479	-435	-607
Profit before taxes (PBT)		5,936	4,293	9,666
Income tax	(5)	1,672	1,369	2,932
Profit for the year		4,264	2,924	6,734
Attributable to:				
Equity shareholders		4,264	2,924	6,734
Minority interests	(14)	0	0	0
Consolidated profit for the year		4,264	2,924	6,734
Earnings per share, undiluted (€)	(6)	0.20	0.16	0.35
Earnings per share, diluted (€)	(6)	0.19	0.16	0.34
Adjusted earnings per share (€), for comparison only	(6)	0.23	0.19	0.41

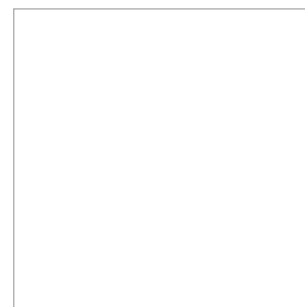
CONSOLIDATED CASH FLOW STATEMENT
SIX MONTHS ENDED 30 JUNE 2008 (IFRS)

	NOTES	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
		T€	T€	T€
Net cash flow from operating activities				
Profit before taxes		5,936	4,292	9,666
Add back for				
Depreciation and amortisation		2,059	1,474	3,854
Profit (Loss) on the sale of fixed assets		10	0	52
Other non-cash income not affecting payments		295	-100	-554
Net interest income		405	449	855
Operating profit before changes in the net current assets		8,705	6,115	13,873
Increase in trade receivables and receivables from partly completed contracts not yet billed		-786	-3,555	-3,991
Increase (Decrease) in work in progress, other assets and pre-paid expenses and deferred charges		-4,030	47	518
Increase in trade creditors		1,463	91	1
Increase in remaining accruals		113	1,116	3,780
Increase (Decrease) in pension accruals		25	22	-147
Decrease (Increase) in other liabilities and deferred income		-1,280	-77	-494
Cash flow from operating activities		4,210	3,759	13,540
Cash effect of foreign exchange rate movements		-29	-14	-249
Interest payments	(4)	-184	-216	-497
Tax payments	(5)	-1,585	-138	-1,440
Net cash flow from current business activities		2,412	3,391	11,354
Cash flow from investment activities				
Purchase of intangible assets		-1,926	-1,009	-2,090
Purchase of tangible assets		-1,078	-409	-840
Cashflows arising from business combinations		0	0	-3,088
Transfer into a notary trust account to purchase shares		-3,270	0	0
Sale/(Purchase) of marketable securities available for sale	(9)	0	-1,020	0
Foreign currency result		41	-1	249
Interest received	(4)	127	28	241
Net cash flow from investment activities		-6,106	-2,411	-5,528
Cash flow from financing activities				
Proceeds from the issue of share capital		140	4,817	4,817
Costs for IPO		0	-98	-100
Dividends paid		-4,320	0	0
Repayment of finance loans	(10)	-182	-4,686	-5,497
Increase of finance loans	(10)	2,815	0	0
Redemption/termination of leasing contracts		-205	0	-391
Net cash flow from financing activities		-1,752	33	-1,171
Change in the level of funds affecting payments				
Cash and cash equivalents at the beginning of the period		7,220	2,565	2,565
Cash and cash equivalents at the end of the period		1,774	3,578	7,220

CONSOLIDATED DEVELOPMENT OF SHAREHOLDERS' EQUITY
SIX MONTHS ENDED 30 JUNE 2008 (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 2007	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 program			53					53
Costs for Capital increase by cash contribution (net of tax)					-60			-60
Effects directly recognised in equity		1,500	3,370		-60	-79		4,731
Profit for the period							2,924	2,924
30 June 2007 (unaudited)	0	18,691	16,693	53	-1,134	-110	-39	34,154
Capital increase as consideration for business combinations		2,855	8,281					11,136
Currency translation differences						-137		
Stock option programme			55					55
Costs for Capital increase by cash contribution (net of tax)								0
Effects directly recognised in equity		2,855	8,336			-137		11,191
Profit for the period							3,810	3,810
31 December 2007 (audited)	0	21,546	25,029	53	-1,134	-247	3,771	49,018
Capital increase as consideration for business combinations		53	87					140
Dividends paid							-4,319	-4,319
Currency translation differences						192		192
Stock option programme			88					
Costs for IPO								0
Effects directly recognised in equity		53	175		0	192		-3,987
Profit for the period							4,264	4,264
30 June 2008 (unaudited)	0	21,599	25,204	53	-1,134	-55	3,716	49,383

Notes to the Financial Information at 30 June 2008 (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 2008, whereas the interim reports are published in an abbreviated form according to IAS 34. The Interim Consolidated Financial Statements have neither been audited nor reviewed.

The Financial Information has been prepared on the historical cost basis. The same accounting and valuation method used for the 2007 annual Consolidated Financial Statements was applied. Further information about the Group's accounting principles and policies is contained in the SQS Consolidated Financial Statement at 31 December 2007.

The Financial Information is presented in Euros and amounts are rounded to the nearest thousand (T€) except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the SQS Consolidated Financial Statement at 31 December 2007.

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 interests in the share capital of more than 20% of the following undertakings:

CONSOLIDATED COMPANIES				
	COUNTRY OF INCORPORATION	SIX MONTHS ENDED 30 JUNE 2008	SIX MONTHS ENDED 30 JUNE 2007	YEAR ENDED 31 DECEMBER 2007
		SHARE OF CAPITAL	SHARE OF CAPITAL	SHARE OF CAPITAL
		%	%	%
SQS Group (UK) Limited, Woking	UK	100.0	100.0	100.0
SQS Group Limited, London	UK	100.0	100.0	100.0
SQS Software Quality Systems (Ireland) Ltd.	Ireland	100.0	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
SQS Software Quality Systems (Schweiz) AG, Zürich	Switzerland	97.0	97.0	97.0
SQS Group Management Consulting Gmbh (formerly Triton Unternehmensberatung GmbH Deutschland), Vienna	Austria	100.0	-	100.0
PPT Unternehmensberatung GmbH, Vienna	Austria	100.0	-	100.0
SQS Group Management Consulting Gmbh (formerly Triton Unternehmensberatung GmbH Deutschland), Munich	Germany	100.0	-	100.0
SQS Egypt, Cairo	Egypt	100.0	-	-

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 and Triton purchases
- deferred taxes on losses carried forward,
- the valuation of pension assets and liabilities,
- the planning premises relating to the value in use of cash generating units.

2. Segmental reporting

2.

The following tables present revenue and profit information regarding the SQS Group's business segments for the interim period ended 30 June 2008 and 30 June 2007 and for the year ended 31 December 2007.

SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)

	GERMANY	UK- BASED BUSINESS	SWITZER- LAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	33,941	23,905	6,879	4,142	68,867
Internal sales between the segments	617	356	294	887	2,154
Result	3,720	2,213	247	235	6,415
Segment result					0
Consolidation					
Financial result					-479
Taxes on income					-1,672
Result for the period					4,264
Profit share of minority shareholders					0
Result of the Group for the period					4,264

SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

	GERMANY	UK- BASED BUSINESS	SWITZER- LAND	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

**YEAR ENDED 31 DECEMBER
2007 (AUDITED)**

	GERMANY	UK- BASED BUSINESS	SWITZER- LAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	55,708	48,704	12,534	4,113	121,059
Internal sales between the segments	2,351	407	550	812	4,120
Result					
Segment result	3,533	5,580	822	338	10,273
Consolidation					0
Financial result					-607
Taxes on income					-2,932
Result for the period					6,734
Profit share of minority shareholders					0
Result of the Group for the period					6,734

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 2008 amounted to €7,378k (at mid-year 2007: €7,334k). 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**

	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
	T€	T€	T€
Wages and salaries	35,389	28,356	60,072
Social security contributions	4,440	3,596	7,577
Expenses for retirement benefits	415	198	618
	40,244	32,150	68,267

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 2008 amounted to €2,060k (at mid-year 2007: €1,474k). Of this, €938k (at mid-year 2007: €978k) 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 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
	T€	T€	T€
Interest income	167	66	241
Exchange rate gains	38	12	315
Total finance income	205	78	556
Interest payable	-573	-515	-1.096
Exchange rate gains / losses	-111	2	-67
Total finance costs	-684	-513	-1,163
Financial result	-479	-435	-607

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 and from the purchase of Triton Unternehmensberatung GmbH calculated using the effective interest method.

Finance income and expenses are stated after foreign exchange rate gains and losses.

The interest income represents the interest income of €36k caused by the 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 €1,779k (previous interim period: €934k) and deferred tax income in the amount of €107k (previous interim period: €(435)k).

Further information about the recognition and measurement of the income tax is contained in the SQS Consolidated Financial Statements at 31 December 2007.

6. Earnings per share

6.

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

SHARE	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
	T€	T€	T€
Profit for the year attributable to equity shareholders, T€	4,264	2,924	6,734
Diluted profit for the year, T€	4,264	2,924	6,734
Weighted average number of shares in issue, undiluted	21,584,894	17,920,105	19,098,779
Weighted average number of shares in issue, diluted	22,479,324	18,614,683	19,843,595
Undiluted profit per share, €	0.20	0.16	0.35
Diluted profit per share, €	0.19	0.16	0.34
Adjusted earnings per share (for comparison only), €	0.23	0.19	0.41

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 2008: 21,584,894 (at mid-year 2007: 17,920,105).

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.

The adjusted earnings per share were calculated by adjusting the profit after tax for the corporate income tax assets, deferred taxes, the interest cost of the Cresta and Triton purchase obligations and amortisation cost of the acquired customer relationship as part of the business combination "Triton". Further the difference between taxes on income payable under local GAAP and IFRS has been adjusted. This adjusted profit after tax divided by the number of shares issued as at 30.6.2008 of 21,599,109 shares, (previous year 18,690,823 shares) shows adjusted earnings per share of €0.23 (at mid-year 2007: €0.19).

7. Intangible assets

7.

The item is comprised as follows:

INTANGIBLE ASSETS	SIX MONTHS	SIX MONTHS	YEAR ENDED
	ENDED 30 JUNE	ENDED 30 JUNE	31 DECEMBER
BOOK VALUES	2008	2007	2007
	(UNAUDITED)	(UNAUDITED)	(AUDITED)
	T€	T€	T€
Goodwill	45,980	28,313	45,977
Development costs	2,270	2,511	2,103
Software	1,103	640	516
Customer relationships Triton (30 June 2007: Remaining intangible assets)	3,018	2	3,380
Intangible assets	52,371	31,466	51,976

Development costs were capitalised in the interim period ended 30 June 2008 in the amount of €1,114k (half-year 2007: €922k) 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 the SQS Group is presented as follows:

PROPERTY, PLANT AND EQUIPMENT	SIX MONTHS	SIX MONTHS	YEAR ENDED
	ENDED 30 JUNE	ENDED 30 JUNE	31 DECEMBER
BOOK VALUES	2008	2007	2007
	(UNAUDITED)	(UNAUDITED)	(AUDITED)
	T€	T€	T€
Freehold land and buildings	578	228	251
Office and business equipment	2,086	974	1,992
Property, plant and equipment	2,664	1,202	2,243

9. 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 carrying amounts are considered to be reasonable approximation of fair value.

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

10. Bank loans, overdrafts and other loans

10.

The finance liabilities are comprised as follows:

FINANCE LIABILITIES	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
	T€	T€	T€
Bank loans and overdrafts	2,827	989	191
Current finance liabilities	2,827	989	191
Bank loans	102	109	105
Non-current finance liabilities	102	109	105
Total finance liabilities	2,929	1,098	296
Of these, secured	108	1,015	288

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

11. Other liabilities

11.

The item is comprised as follows:

OTHER CREDITORS	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
	T€	T€	T€
Liabilities in regard to social security	1,611	641	1,164
Personnel liabilities (leave, bonus claims)	6,933	5,860	8,504
Obligations from Cresta purchase	6,767	10,921	7,538
Obligations from Triton purchase	8,745	0	8,439
Remaining other liabilities	3,427	2,490	2,396
Deferred income	43	-9	237
Bonded loans	2,953	2,942	2,948
	30,479	22,845	31,226

The remaining other liabilities comprise trade accruals and other items due in the short term. The carrying amounts are considered to be reasonable approximation of fair value.

SQS has remaining liabilities from the Cresta purchase with a fair value of €6,767k (at mid-year 2007: €10,921k). The non-current liability has an amount of €0 (at mid-year 2007: €3,617k).

Further SQS has remaining liabilities from the Triton purchase with a fair value of €8,745k. The non-current liability has an amount of €4,299k. For further details see SQS Consolidated Financial Statements at 31 December 2007.

The bonded loan represents a nominal amount of €3,000k. The loan payment is reduced by a discount. The discount is set off against the loan in accordance with IAS 39.AG 65. The interest rate is agreed with 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 €319k (31 December 2007: €194k) include the warranty costs in the amount of €78k (31 December 2007: €74k) and the vacant property provision in the amount of €97k (31 December 2007: €120k).

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 €21,599,109 (at 31 December 2007: €21,546,309). It is divided into 21,599,109 (at 31 December 2007: 21,546,309) 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 2007	18,690,823	18,690,823
Increase in capital against redemption of obligations from Cresta purchase (Entry of 21 September 2007)	2,855,486	2,855,486
As at 31 December 2007	21,546,309	21,546,309
Increase in capital against redemption of convertible bond (Issue on 18 February 2008)	52,800	52,800
As at 30 June 2008	21,599,109	21,599,109

The General Meeting of 14 September 2005 resolved the authorisation of the management board with the approval of the supervisory board to issue non-interest bearing convertible bonds in the aggregate nominal value of up to €52,800 and to offer such convertible bonds for subscription to Gresham Computing plc, UK. In accordance with this authorisation 52,800 convertible bond in the nominal amount of €1.00 each were issued to Gresham Computing plc. by the declaration of conversation and by the issue of the share certificates of 52,800 registered SQS shares of 18 February 2008.

Accordingly, SQS had no shares in its ownership as at 30. June 2008

Conditional capital

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

The General Meeting of 28 May 2008 resolved the authorisation of the management board with the approval of the supervisory board to increase the share capital until 30 April 2013 by issuing of up to 4,300,000 new registered non-par value shares against contributions in cash or in kind (authorised capital IV).

Thereafter, the authorised capital developed as follows:

AUTHORISED CAPITAL	
	T€
As at 30 June 2007	4,954
Increase of authorised capital II	4,300
Usage of authorised capital II	-2,856
As at 31 December 2007	6,398
Increase of authorised capital IV	4,300
As at 30 June 2008	10,698

Share premium

Additional paid-in capital includes any premiums received on the issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted or set off from additional paid-in capital, net of any related income tax benefits. Equity-settled share-based employee remuneration is also credited to additional paid-in capital until related stock options are exercised.

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 conversation of the opening reserves of subsidiary undertakings where the functional currency of the subsidiary is not the Euro.

14. Retained earnings

14.

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

15. Minority Interests

15.

There is no change in this item compared to 30 June 2007.

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 2008 no minority profits were allocated to the majority (half year 2007: €2k).

16. Notes to the Statement of Cash flows

16.

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).

17. Related party transactions

17.

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 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 Westhoyer Berg GbR mbH", Cologne. Since 01 January 2008 Mr. Bons retired from the Management Board. So he and his wife are not regarded as related parties anymore.

DETAILS OF INDIVIDUAL SHARES

	SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)	SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)	YEAR ENDED 31 DECEMBER 2007 (AUDITED)
	Non-par shares	Non-par shares	Non-par shares
Rudolf van Megen, Member of the Management Board	3,268,149	3,657,647	3,251,681
Ilona van Megen, née Rumsch	932,544	932,544	932,544
Children of van Megen	3,170	-	-
Heinz Bons, retired Member of Management Board	-	3,295,945	2,899,979
Maria Helene Bons, née Peters	-	932,544	932,544
René Gawron, Member of the Management Board	47,129	2,289	44,129
Supervisory Board	17,500	17,500	17,500
Total	4,268,492	8,838,469	8,068,377

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

As a part of the remuneration for the Management Board activities, SQS has granted a pension commitment to a Management Board member.

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 a Management Board member 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 €691k (half year 2007: €651k).

The total emoluments of the Management Board members amounted in the interim period ended 30 June 2008 to €458k (half-year 2007: €556k). The emoluments of the Supervisory Board members amounted in total to €41k (half-year 2007: €41k) of which €41k had not been paid by the end of the interim period.

Members of the Management board held 15.3% (half-year 2007: 37.2%) of the shares in SQS as at 30 June 2008. The reduction is mostly due to Mr. Bons' retirement from the Management Board as at 31 December 2007.

18. Proposed Dividend

18.

The General Meeting of 28 May 2008 resolved to pay €0.20 dividends per share for the business year 2007 in the total amount of €4,319,821.80.

19. Other Information

19.

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

20. Post interim period events

20.

Validate Group, Sweden

SQS has entered into an agreement to acquire 100% of the issued share capital of the Validate Group ("Validate"), Sweden, a software testing and quality management business in Sweden, and its subsidiaries including all formerly existing minority shares. The Acquisition will be executed predominantly via the acquisition of "2020 Governance AB", the holding company. The closing is effective on the begin July 2008.

Validate is headquartered in Kista, Sweden and has subsidiaries in Finland and Norway. As one of the leading providers of software testing in Scandinavia, the Validate Group, currently has approximately 70 staff and 20 customers including many of the region's blue chip corporations. In the year ended 31 December 2007 Validate generated profit before tax of €0.3m on revenues of €4.6m and is expected to generate profit before tax of €0.8m on revenues of €8.0m in the current year. As at 31 December 2007, Validate had net assets of €0.4m.

Maximum consideration for the Acquisition (assuming the purchase of 100% of the Validate Group and subject to certain adjustments depending on the development of the SQS share price) will be Swedish Krona (SEK) 153.3m (€16.4m) of which, overall, 25% will be satisfied in cash and up to 75% can be satisfied by the issue of new SQS ordinary shares to the vendors (who include current Validate management). Of this maximum consideration, SEK68.1m (€7.3m) (the "Initial Consideration") is due on Closing and SEK85.2m (€9.1m) will be deferred and payable over the three years following Closing, dependent upon the achievement by Validate of specified growth and profit targets. Of the Initial Consideration, 37% (SEK25.2m (€2.7m)) will be satisfied in cash from internal SQS resources and 63% (SEK42.9m (€4.6m)) through the issuance of 1,221,144 new SQS ordinary shares (the "New Ordinary Shares").

VeriSoft, India

SQS has entered into an agreement to acquire 75% of the issued share capital of VeriSoft with an option to purchase the remaining shares.

VeriSoft is headquartered in Pune, India, one of the country's leading technology centres, and is a leading provider of software testing and quality assurance in the region, with subsidiaries in the US and the UK. With approximately 150 staff, VeriSoft has completed over 300 testing projects for some 100 customers of which 50% are based outside India. In the year ended 31 March 2008, VeriSoft generated profit before tax of €0.1m on revenues of €1.2m.

The maximum consideration for the acquisition of 75% of VeriSoft will be INR121m (€1.8m) of which 44% will be satisfied in cash and up to 56% can be satisfied by the issue of new SQS ordinary shares to the vendors (who include current VeriSoft management). Of this maximum consideration, INR40m (€0.61m) (the "Initial Consideration") is due as a cash payment on Closing and INR68m (€1m) will be deferred and payable (up to 100% in newly issued ordinary SQS shares) over the two years following Closing, dependent upon the achievement by VeriSoft of specified growth and profit targets. A further consideration of INR13m (€0.2m) will be paid for a 95 year lease over land that VeriSoft has been allotted in the Special Economic Zone ("SEZ") IT Technology Park in Pune. The SEZ provides a favourable tax status for new work and SQS expects that it will build its new offshore testing centre there over the next 2 years. The acquisition is completed on 1 July 2008.

There is a further option for SQS to acquire the remaining 25% of the shares in VeriSoft between April 2011 and April 2016 for a consideration which is determined by VeriSoft's achieved profit after taxes and SQS' price/earnings ratio at the time, when the option is exercised. This option is exercisable either by SQS or the vendors and 50% of the consideration for the option can be satisfied by the issue of new SQS ordinary shares to the vendors.

Cologne, 3 September 2008



David Cotterell

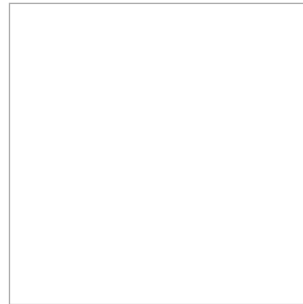
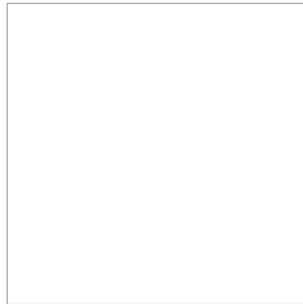
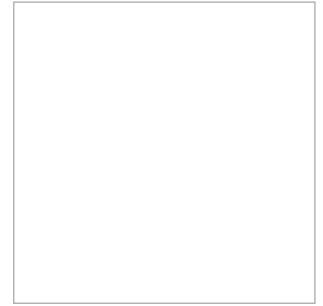
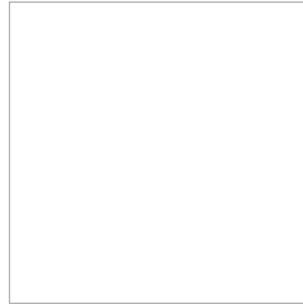
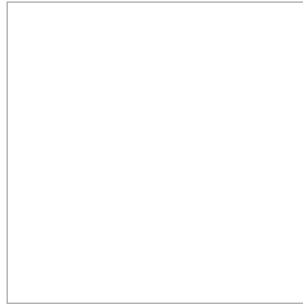
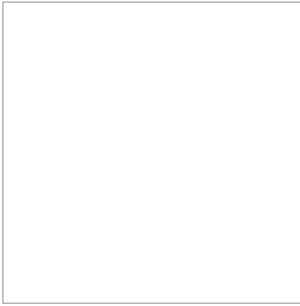


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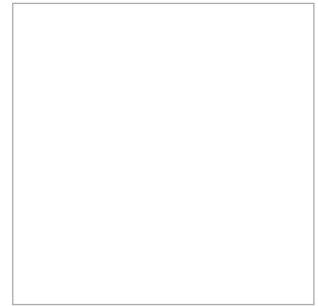
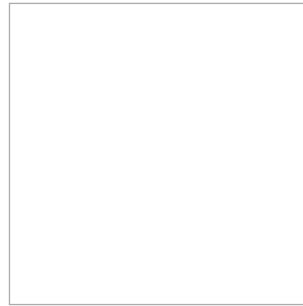
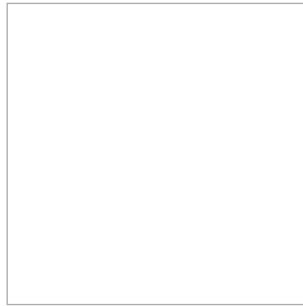
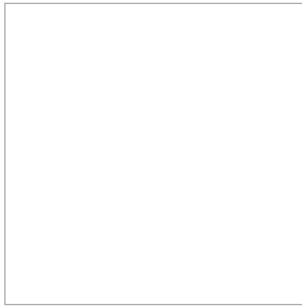
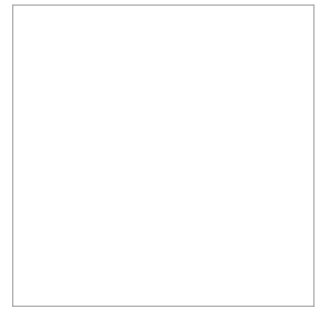
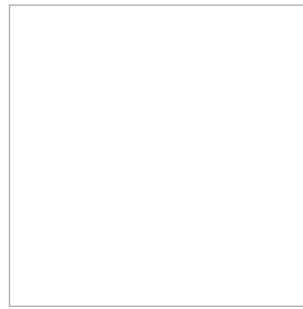
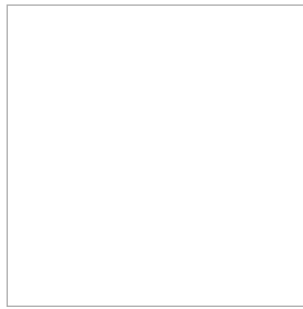
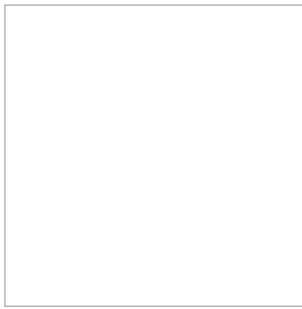
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