

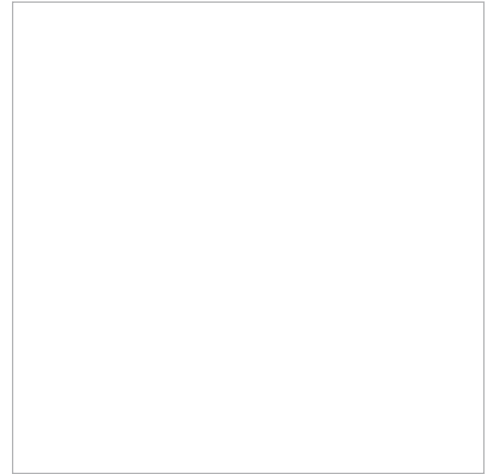
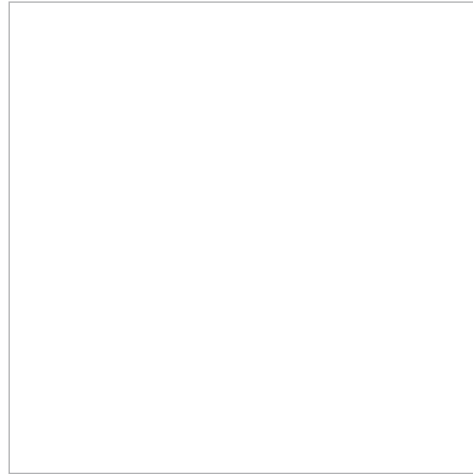
Transforming IT into Business Value.

Interim Report 2006

1 January to 30 June, 2006



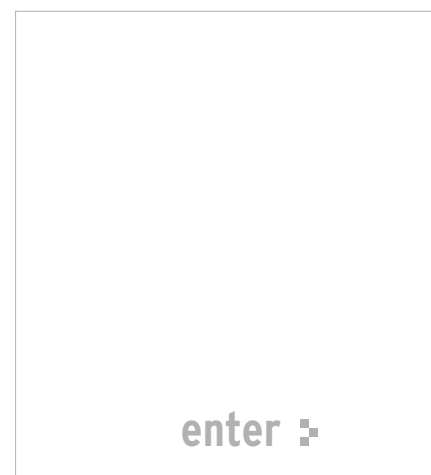
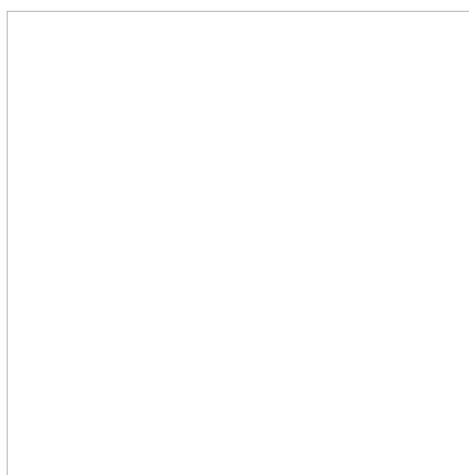
SQS Software Quality Systems AG



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➤ **SQS** enhances the success and efficiency of IT projects. We make full use of our profound understanding of our clients' business and of our extensive know-how in the fields of quality assurance and quality management of projects and software testing when providing our best-in-class services. In our role of independent quality consultant we create lasting value added in software cycles for our national and international clients.



Interim results for the six months ended 30 June 2006

SQS Software Quality Systems AG (AIM:SQS.L) the leading independent pan-European provider of quality management and testing services for software development, today announces its interim results for the six months ended 30 June 2006.

Financial highlights:

- Turnover up by 18.5% to 31.50M€ (HY1 2005: 26.58M€)
- Profit before tax up 2.4% to 1.70M€ (HY1 2005: 1.66M€)
- Adjusted earnings per share up 11.1% to 0.10€ (HY1 2005: 0.09€)
- Gross profit up 6.6% to 10.16M€ (HY1 2005: 9.53M€)
- Period end cash balance of 0.3M€; in line with plan; borrowings reduced further by 8.6M€ to 6.4M€

Operational highlights:

- Investment in 55 new consultants to support current strong demand for SQS services and future organic growth of the business
- Achieved 18% top line growth - more than three times than expected by the European IT services market*
- 26 new client wins (about 10% of the total number of clients), and expanded revenue in embedded systems by 33% to secure future revenue growth and expand in avionics and automotive
- Extended all contracts with the top 20 clients from HY1 2005 into HY1 2006
- Cresta Group Ltd. acquisition successfully completed just after the period end to establish SQS as the clear market leader in the UK. The integration of SQS UK and Cresta are going to plan

*International Data Corporation (IDC) 2006 study

Chief Executive's statement

➤ Introduction

I am pleased to present SQS's first set of interim results following its admission to AIM in September 2005. SQS has had a strong first half, recording a material increase in revenues across the Group. This improvement resulted purely from organic growth in our core businesses, both by extending contracts with existing clients and from 26 new client wins achieved in the period.

The first half of 2006 was also a period of investment when we increased the number of consultants by 55, bringing the total to 383. We expect these consultants to make a positive contribution in the second half of the year. In particular we are securing additional business in the area of software testing of embedded systems, in both the avionics and automotive industries, and in insurance.

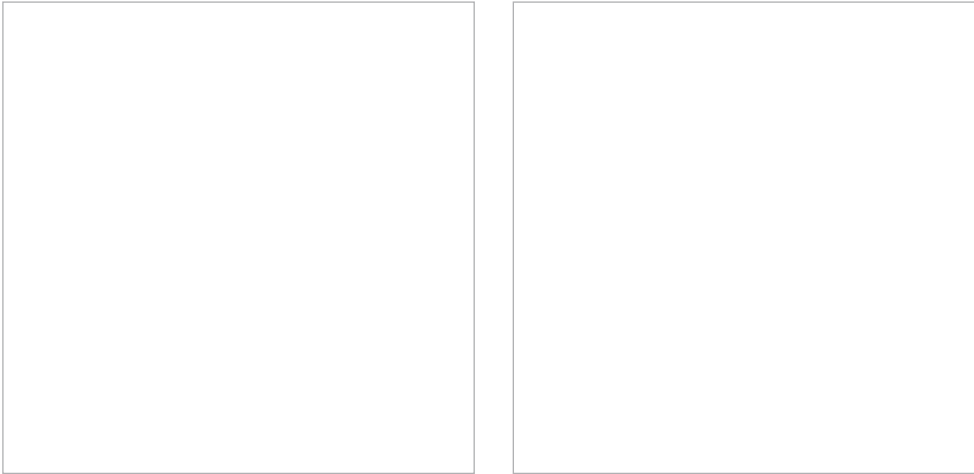
Turnover from continuing operations rose by 18.5% to 31.50M€ (HY1 2005: 26.58M€) while underlying profit before tax increased by 2.4% to 1.70M€ (HY1 2005: 1.66M€), constrained by the training costs associated with the investment in new consultants (approximately 1.0M€ in opportunity costs). Although the investment in new consultants has impacted our gross margin in the first half of the year they are expected to fully contribute to gross margin generation in the second half of 2006.

The gross profit improved to 10.16M€ (HY1 2005: 9.53M€), despite continued pricing pressure and investment in new consultants. Geographically we saw the strongest turnover growth in Switzerland where the top line grew by 50.2%, followed by Germany which saw 17.7% growth. In the United Kingdom, the consolidated revenues were flat; however, revenue derived by UK resources increased by 11% as a number of UK consultants were allocated to a large strategic project in Switzerland which accounted for 0.5M€ of revenues. Adjusted EPS (adjusted for deferred taxes and IFRS tax differences) of 0.10€ rose by 11.1% (HY1 2005: 0.09€).

The balance sheet strengthened considerably during the period reflecting the benefit of the 14.1M€ net proceeds from our admission to AIM in September 2005 and the positive net income in the first half of the year. We further reduced our borrowings by 8.6M€ to 6.4M€ (HY1 2005: 15.0M€). Cash balances at the six-month period end stood at 0.3M€ (HY1 2005: cash 0.1M€). The acquisition of Cresta required us to show 4.4M€ of cash recorded under other receivables which was a notary account as cash consideration for the Cresta acquisition, whose completion occurred a few days after the six-month period end.

Dividend

No dividend will be paid in respect of the interim results, however the Board intends to pursue a progressive dividend policy in future and therefore intends to pay a final dividend for the year ending 31 December 2006.



The Board

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

Strategy

Our strategy is to strengthen our market position as the leading independent pan-European provider of quality management and testing services for software development. We aim to grow our business with long-term outsourcing contracts and investment in expanding markets such as embedded systems in the aircraft-manufacturing and automotive industries. We intend to strengthen our position in a number of key European markets and will continue to actively look for acquisitions to support and accelerate this strategy.

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 to contribute with their rich talents to our growth strategy. I am confident that we have the team in place to capitalise on the opportunities available and to enable us to deliver long-term shareholder value.

A stock option programme which will be executed within the next two months will help SQS retain key employees and attract quality individuals into the business.

As a result of the acquisition of Cresta, SQS now has a training facility based in South Africa which is to be used for new employees. We believe that our ability to provide first-class training will be a crucial part of attracting new employees to the business.

Outlook

During the year, SQS strengthened its position as the leading independent pan-European provider of quality management and testing services for software development and once again accelerated its growth rate, now at more than three times the rate of the European IT services market.

In the second half of 2006, we will continue to grow the business organically, focusing on expanding growth markets such as outsourcing and embedded systems, whilst consolidating the contribution from the Cresta acquisition. Trading has been encouraging in the first two months of HY2 2006, and as expected, growth is well ahead of the comparable period last year while the new business pipeline remains strong.

Rudolf van Megen, Chief Executive Officer
6 September 2006

Business and financial review

During the first half of 2006, we continued to strengthen our business through strong organic growth and repeat revenues. Client numbers now stand at 280, following 26 new account wins in the period. We accelerated our investment programme of consultants and further reduced our overheads relative to sales at stable utilisation rates. Although the investment in new consultants has impacted our gross margin in the first half of the year they are expected to fully contribute to gross margin generation in the second half of 2006. The acquisition of Cresta Group Ltd., which will be consolidated from July 2006 onwards, has reduced our high exposure to the German market and moved us to the clear market leadership in our field in the United Kingdom.

Strategic update

Market drivers

Software quality management and testing constitutes a segment of the IT services market and therefore growth in the IT services market closely correlates with growth in software quality management and testing. Research conducted by International Data Corporation ("IDC") in 2006 shows that the European growth rate for IT services is expected to be approximately 5.0% in 2006. Of that, the UK is forecast to grow 5.2% with Germany growing 4.0%. In HY1 2006, SQS achieved 18.5% growth, thus more than three times that rate.

As proven by the Standish Group studies since 1994, there are still 71% of worldwide IT projects either failing or falling behind time and budget. This is a key driver for the growth in the independent third-party quality management and testing market and the second opinion, that companies such as SQS provide, helps to improve the success rate of IT projects. Other market drivers include the increasing complexity of software and IT systems and higher regulatory demands imposed on IT systems by requirements such as the Sarbanes-Oxley Act.

In addition, continuing return on investment (ROI) pressures, coupled with increasing "industrialisation" of the software engineering process have led to an increased demand for outsourced software testing as well as better quality management of embedded systems.

Strategic goals

The SQS Group strategy builds on five strategic goals which all contribute to market leadership as a service company and resulting shareholder value.

These are:

- To extend leadership in independent quality management and testing by delivering added value to our customers in order to achieve their goals
- To grow the business significantly above the market growth rate for IT services
- To remain the financially strongest independent quality service company in Europe
- To extend and retain a strong base of highly motivated, skilled and best performing employees
- To spot and anticipate trends in IT quality management and testing and use them for the benefit of our clients

Services and product lines

SQS Group will concentrate on these service and product lines:

- IT professional services: within its broad range of software testing and quality management services, SQS continues to enhance its offerings in the fields of code quality management, assessments of software development and IT organisations, project and risk management mainly in standard software package projects and outsourcing.
- Tools, licences and maintenance: SQS's specialist range of software testing tools which work in conjunction with the tools available from competitors has been enhanced by Version 8.0 of our SQS-Test Professional product.
- IT training and IT events: the number of delegates at the SQC conference in Germany has increased by more than 15% this year.

The successful SQC conferences (Software and Systems Quality Conferences), held in Germany and the UK, are two of the largest quality management and software-testing events in Europe. We have expanded these into Switzerland this year, where the first SQC conference will be held in September 2006. The media alliance with one of Europe's most influential publishers, IDG Communications (e.g. *Computerwoche* in Germany) has resulted in an increase in the number of delegates, exhibitors and sponsors attending our German and Swiss conferences in 2006.

Geographic review

Germany

Revenue in Germany was 20.27M€ (HY 2005: 17.22M€), an increase of 17.7%, contributing 64% to the Group's total revenue compared with 65% in the prior period. We intensified our hiring activities in the first half of 2006 in order to grow the local business in Germany significantly in the current year. Profits have been impacted by the number of non-fee earning consultants as we increased the headcount and trained our new employees, although this is expected to pay off in the second half of the year. During the first half, we secured key contract renewals with all our large clients. We also increased the business base in embedded systems by 33% to 2.4M€ (HY1 2005: 1.8M€) which to a large extent is business with German-based aircraft manufacturers and automotive clients.

Switzerland

In Switzerland revenues were at 4.99M€ (HY1 2005: 3.32M€), an increase of 50.3%. We won additional clients in banking and insurance in Switzerland. Furthermore, we built a new service line which has been marketed as "SQS Group Business Consulting", focusing on bridging the gap between customers' business and IT departments with project and risk management services.

United Kingdom

UK revenues were 4.43M€ (HY1 2005: 4.48M€), 14% of the Group's total. Although these consolidated numbers are flat year on year, revenues generated by UK staff increased by 11% as they contributed to 0.5M€ of turnover generated in Switzerland that could not otherwise have been set up successfully. The Cresta Group Ltd. acquisition will only be consolidated in the last six months of 2006 and is expected to more than triple our UK business.

Other European countries

The business in Austria and the Netherlands generated 1.82M€ (HY1 2005: 1.56M€) which was an increase of 16.7%.

Financial review

Profit before tax was 1.70M€ (HY1 2005: 1.66M€), up 2.4%. Profit was constrained by the training costs of 55 new consultants (during HY1 2005: 20 new consultants), of which on average each had 1.5 months of training before they became fully billable. Their direct costs were fully expensed in the gross margin and have impacted the margin with 1.0M€ in opportunity costs. In order to facilitate further growth and improved margins in the full year, such investments were necessary in the first half of the year. A higher than average number of holidays were taken by consultants in June 2006 due to the World Cup in Germany which has shifted approximately 0.3M€ of revenue and pre-tax profits from June to Q3 2006. Adjusted* earnings per share improved to 0.10€ (HY1 2005: 0.09€).

*Based on net income increased by 0.4M€ deferred taxes and IFRS tax differences on capitalised R&D but including actual profit taxes of 0.2M€ payable under local GAAP

Costs

Administrative costs totalled 4.71M€ (HY1 2005: 4.40M€) and represented 15.0% of sales (HY1 2005: 16.6%). This reduced from the same period last year due to more centralised use of overheads in an enlarged company. Sales and marketing costs were 2.1M€ and grew relative to turnover (to 6.7% from 6.3%) as SQS continued to invest in additional sales resources to support current and future organic growth of the business. Research and development costs of 1.4M€ fell as a proportion of turnover (to 4.5% from 5.0%), as these efforts for tool and course development for our training products remain stable in absolute terms irrespective of the overall revenue growth. In total overhead costs relative to sales were reduced to 26.2% from 27.9% in HY1 2005.

Taxation

The Group tax charge of 0.6M€ has two components; one is tax on profits payable under local GAAP of 0.2M€, and the other is the deferred tax and tax differences that SQS is required to show under IFRS of 0.4M€. Due to tax breaks in Germany under local GAAP, SQS will pay no or negligible taxes on profits in Germany, Austria and the Netherlands. The remaining 0.2M€ tax on profits arose in the UK and Switzerland. Deferred tax and IFRS tax differences were 0.4M€ on capitalised R&D costs.

Cash flow and financing

Cash flow for the period was neutral, compared to an inflow of 1.2M€ in 2005. Operating cash flow was negatively impacted in 2006 by an increase of 2.3M€ in receivables, partly due to an increase in debtor days to 70 from 69 at the end of June 2005.

Cash outflow from financing activities was 0.3M€ compared to an outflow of 0.8M€ in 2005, mainly due to the repayment of finance loans. Cash inflow from investments was 0.1M€ against an outflow of 0.9M€ last year. This figure includes an outflow of 1.0M€ for capitalised R&D for products and investments in intangible assets (HY1 2005 comparable was an outflow of 0.8M€), the sale of 5.6M€ in marketable securities and 4.4M€, which was a payment on a notary account for the cash consideration of Cresta Group Ltd. This completed on 3 July 2006 after the balance sheet date.

Foreign exchange

Approximately 70% of the Group's turnover is generated in euros. With the exception of SQS UK Group Ltd. and Software Quality Systems (Schweiz) AG, all subsidiaries of SQS are located in the currency area of the euro. 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 2006 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 the changed IFRS accounting rules. On account of the high amortisation of these goodwill values in previous years, their book values today lie considerably below the original acquisition costs. No reduction in value was necessary by reason 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 IAS = International Accounting Standards) and interpretations of the IASB (International Accounting Standards Board) which are mandatory at 30 June 2006, whereas the interim reports are published in an abbreviated form according to IAS 34. The same accounting and valuation method used for the 2005 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 2006 were prepared in accordance with uniform accounting and valuation principles in euros.



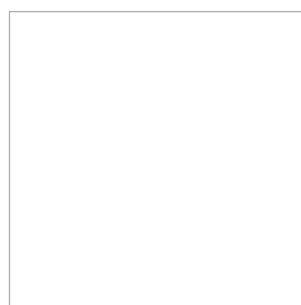
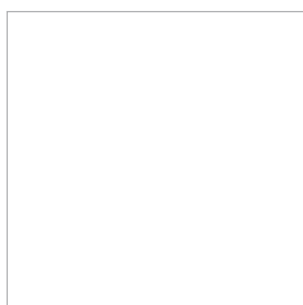
René Gawron, Chief Financial Officer
6 September 2006

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006 (IFRS)**

	NOTES	30 JUNE 2006 (UNAUDITED)	30 JUNE 2005 (UNAUDITED)	31 DECEMBER 2005 (AUDITED)
		T€	T€	T€
Current assets				
Cash and cash equivalents	(9)	265	82	839
Marketable securities	(9)	0	0	5,626
Trade receivables		13,976	11,621	11,433
Other receivables		5,228	912	518
Work in progress		406	177	135
Income tax receivables		330	159	306
		20,205	12,951	18,857
Non-current assets				
Intangible assets	(7)	2,544	1,757	2,395
Goodwill	(7)	11,589	11,589	11,589
Tangible assets	(8)	721	797	756
Deferred taxes		1,653	1,844	2,007
		16,507	15,987	16,747
Total assets		36,712	28,938	35,604
Current liabilities				
Bank loans and overdrafts	(10)	4,578	3,432	3,776
Convertible bonds	(13)	0	530	0
Trade creditors		2,492	2,244	1,844
Other accruals	(12)	75	67	75
Tax accruals		380	655	239
Tax liabilities		1,421	1,619	1,957
Other current liabilities	(11)	5,260	6,192	5,232
		14,206	14,739	13,123
Non-current liabilities				
Bank loans	(10)	1,822	10,995	2,971
Other accruals	(12)	126	144	151
Pension accruals		325	343	305
Deferred taxes		938	706	859
		3,211	12,188	4,286
Total liabilities		17,417	26,927	17,409
Shareholders' equity				
	(13)			
Share capital		15,763	4,201	15,763
Share premium		10,936	1,669	10,936
Statutory reserves		53	53	53
Other reserves		-905	191	-908
Retained earnings		-6,552	-4,103	-7,649
Equity attributable to equity shareholders		19,295	2,011	18,195
Minority interests	(14)	0	0	0
Total equity		19,295	2,011	18,195
Equity and liabilities		36,712	28,938	35,604

CONSOLIDATED PROFIT AND LOSS ACCOUNT
SIX MONTHS ENDED 30 JUNE 2006

	NOTES	SIX MONTHS ENDED	SIX MONTHS ENDED	YEAR ENDED
		30 JUNE 2006 (UNAUDITED)	30 JUNE 2005 (UNAUDITED)	31 DECEMBER 2005 (AUDITED)
		T€	T€	T€
Revenue		31,499	26,582	54,737
Cost of sales	(3)	21,337	17,049	35,563
Gross profit		10,162	9,533	19,174
General and administrative expenses	(3)	4,719	4,401	8,473
Sales and marketing expenses	(3)	2,115	1,674	3,525
Research and development expenses	(3)	1,428	1,336	2,690
Profit before tax and financing result (EBIT)		1,900	2,122	4,486
Net interest	(4)	-199	-458	-773
Profit before taxes (PBT)		1,701	1,664	3,713
Income tax	(5)	604	628	1,319
Profit for the year		1,097	1,036	2,394
Attributable to:				
Equity shareholders		1,097	1,036	2,394
Minority interests	(14)	0	0	0
Consolidated profit for the year		1,097	1,036	2,394
Earnings per share, undiluted (€)	(6)	0,07	0,10	0,21
Earnings per share, diluted (€)	(6)	0,07	0,10	0,20



**CONSOLIDATED CASH FLOW STATEMENT
SIX MONTHS ENDED 30 JUNE 2006 (IFRS)**

	NOTES	SIX MONTHS ENDED	SIX MONTHS ENDED	YEAR ENDED
		30 JUNE 2006 (UNAUDITED)	30 JUNE 2005 (UNAUDITED)	31 DECEMBER 2005 (AUDITED)
		T€	T€	T€
Net cash flow from operating activities				
Profit before taxes		1,701	1,664	3,713
Add back for				
Depreciation and amortisation		1,017	909	2,361
Profit (Loss) on the sale of fixed assets		25	5	-33
Other non-cash income not affecting payments		3	182	-145
Net interest income		96	455	766
Operating profit before changes in the net current assets		2,842	3,215	6,662
Decrease in trade receivables and receivables from partly completed contracts not yet billed		-2,543	-2,817	-2,629
Decrease in work in progress, other assets and prepaid expenses and deferred charges		-615	-247	38
Increase in trade creditors		648	-18	-417
Increase in remaining accruals		116	-1	14
Increase in pension accruals		20	20	-18
Decrease in other liabilities and deferred income		-509	1,081	456
Cash flow from operating activities		-41	1,233	4,106
Cash effect of foreign exchange rate movements		103	3	7
Interest payments	(4)	-174	-474	-833
Tax payments		-194	-439	-509
Net cash flow from current business activities		-306	323	2,771
Cash flow from investment activities				
Purchase of intangible assets		-1,039	-812	-2,741
Purchase of tangible assets		-117	-102	-220
Transfer into a notary trust account for the purchase of shares		-4,366	0	0
Proceeds from the sale of tangible assets		0	0	35
Sale/(Purchase) of marketable securities available for sale		5,626	0	-5,632
Foreign currency result		-103	-3	-7
Interest received	(4)	78	2	67
Net cash flow from investment activities		79	-915	-8,498
Cash flow from financing activities				
Proceeds from the issue of share capital		0	0	15,909
Costs for IPO		0	0	-1,790
Proceeds from borrowings		0	510	0
Repayment of convertible bonds		0	-600	-1,130
Repayment of finance loans	(10)	-347	-703	-7,890
Redemption/termination of leasing contracts		0	-11	-11
Net cash flow from financing activities		-347	-804	5,088
Change in the level of funds affecting payments		-574	-1,396	-639
Cash and cash equivalents at the beginning of the period		839	1,478	1,478
Cash and cash equivalents at the end of the period		265	82	839

**CONSOLIDATED DEVELOPMENT OF SHAREHOLDERS' EQUITY
SIX MONTHS ENDED 30 JUNE 2006 (IFRS)**

	MINORITY INTERESTS	SHARE CAPITAL	SHARE PREMIUM	STATUTORY RESERVES	OTHER RESERVES	RETAINED EARNINGS	TOTAL EQUITY
	T€	T€	T€	T€	T€	T€	T€
1 January 2005	0	4,202	1,669	53	143	-5,132	935
Own shares cancelled		-1				-7	-8
Currency translation differences					48		48
Profit for the period						1,036	1,036
30 June 2005 (unaudited)	0	4,201	1,669	53	191	-4,103	2,011
Capital increase by transfer of reserves and retained earnings		5,886	-967			-4,918	1
Capital increase by IPO		5,673	10,234				15,907
Change in own shares		3				14	17
Net gains/losses on available for sale securities					-34		-34
Currency translation differences					9		23
Costs for IPO					-1,074		-1,074
Profit for the period						1,358	1,358
31 December 2005 (audited)	0	15,763	10,936	53	-908	-7,649	18,195
Net gains/losses on available for sale securities					34		34
Currency translation differences					-31		-31
Profit for the period						1,097	1,097
30 June 2006 (unaudited)	0	15,763	10,936	53	-905	-6,552	19,295

Notes to the financial information at 30 June 2006 (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 2006, whereas the interim reports are published in an abbreviated form according to IAS 34. The same accounting and valuation method used for the 2005 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 Statements at 31 December 2005. The financial information is presented in euros 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.

Consolidated companies

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	30 JUNE 2006	30 JUNE 2005
		SHARE OF CAPITAL	SHARE OF CAPITAL
		%	%
SQS Group (UK) Limited (formerly SIM Group Limited), Woking	UK	100.0	100.0
SQS Nederland BV, Zaltbommel	The Netherlands	90.5	90.5
SQS GesmbH, Vienna	Austria	100.0	100.0
Software Quality Systems (Schweiz) AG, Zug	Switzerland	97.0	97.0

3% of the shares in 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 contingencies. The actual results may deviate from these estimates.

There were no changes in accounting estimates and assumptions reported in the prior financial year.

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 2006 and 30 June 2005 and for the year ended 31 December 2005.

SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

	GERMANY	UNITED KINGDOM	SWITZER- LAND	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

**SIX MONTHS ENDED 30 JUNE
2005 (UNAUDITED)**

	GERMANY	UNITED KINGDOM	SWITZER- LAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	17,222	4,482	3,319	1,559	26,582
Internal sales between the segments	1,654	0	0	0	1,654
Result					
Segment result	1,558	299	243	22	2,122
Consolidation					-
Financial result					-458
Taxes on income					-628
Result for the period					1,036
Profit share of minority shareholders					0
Result of the Group for the period					1,036

**YEAR ENDED 31 DECEMBER
2005 (AUDITED)**

	GERMANY	UNITED KINGDOM	SWITZER- LAND	OTHER EUROPEAN COUNTRIES	TOTAL
	T€	T€	T€	T€	T€
Sales					
External sales	34,273	9,177	7,327	3,960	54,737
Internal sales between the segments	3,875	0	170	69	4,114
Result					
Segment result	3,333	381	714	53	4,481
Consolidation					5
Financial result					-773
Taxes on income					-1,319
Result for the period					2,394
Profit share of minority shareholders					0
Result of the Group for the period					2,394

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 2006 amounted to 3,552T€ (at mid-year 2005: 2,056T€). 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 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Wages and salaries	15,647	13,491	27,552
Social security contributions	2,172	2,059	4,249
Expenses for retirement benefits	450	250	506
	18,269	15,800	32,307

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

Depreciation

Depreciation charged in the interim period ended 30 June 2006 amounted to 1,016T€ (at mid-year 2005: 914T€). Of this, 803T€ (at mid-year 2005: 590T€) 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 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Interest income	78	2	67
Exchange rate gains	6	-1	2
Total finance income	84	1	69
Interest payable	-174	-457	-833
Exchange rate losses	-109	-2	-9
Total finance costs	-283	-459	-842
Financial result	-199	-458	-773

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 on the convertible bonds. Finance income and expenses are stated after foreign exchange rate gains and losses.

5. Taxes on earnings

5.

The line item includes current tax expenses in the amount of 172T€ (previous interim period: 233T€) and deferred tax expenses in the amount of 432T€ (previous interim period: 395T€).

Further information about the recognition and measurement of the income tax is contained in the SQS Consolidated Financial Statements at 31 December 2005.

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 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Profit for the year attributable to equity shareholders, T€	1,097	1,036	2,394
Weighted average number of shares in issue	15,763,080	10,142,503	11,671,168
Undiluted profit per share (€)	0.07	0.10	0.21
Diluted profit per share (€)	0.07	0.10	0.20
Adjusted earnings per share (for comparison only) (€)	0.10	0.09	0.22

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 2005: 10,142,503 after adjusting for the impact of changes in the issued share capital in each year and of a 1.4 : 1 bonus share issue on 16 August 2005.

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 IPO costs to the profit, divided by the number of shares issued as at 30.6.2006 (15,763,080 shares).

7. Intangible assets

7.

The item is comprised as follows:

BOOK VALUES	SIX MONTHS ENDED 30 JUNE 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Goodwill	11,589	11,589	11,589
Development costs	2,287	1,588	2,081
Software	212	169	256
Remaining intangible assets	45	0	59
Intangible assets	14,133	13,346	13,985

Development costs were capitalised in the interim period ended 30 June 2006 in the amount of 1,010T€ (31 December 2005: 2,415T€) 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:

BOOK VALUES	SIX MONTHS ENDED 30 JUNE 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Freehold land and buildings	187	192	190
Office and business equipment	534	605	566
Property, plant and equipment	721	797	756

9. Marketable securities and 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 the SQS Group contains investments in money market funds, fixed-interest securities and shares. 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.

During the interim period ended 30 June 2006 all marketable securities classified as available for sale were sold. The total loss of 34T€ that has been recorded in shareholders' equity as the net gains/losses on available for sale securities at 31 December 2005 were recognised in the result for the interim period.

10. Bank loans, overdrafts and other loans

10.

The finance liabilities are comprised as follows:

	SIX MONTHS ENDED 30 JUNE 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Bank loans and overdrafts	4,578	3,432	3,776
Convertible bonds	0	530	0
Current finance liabilities	4,578	3,962	3,776
Bank loans	1,822	10,995	2,971
Non-current finance liabilities	1,822	10,995	2,971
Total finance liabilities	6,400	14,957	6,747
Of these, secured	4,328	12,754	5,477

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

As security for the long-term 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 for and on behalf of the syndicate.

11. Other creditors

11.

The item is comprised as follows:

OTHER CREDITORS

	SIX MONTHS ENDED 30 JUNE 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	T€	T€	T€
Liabilities in regard to social security	360	744	756
Liabilities from wages and salaries	8	33	183
Remaining personnel liabilities (holiday, bonus claims)	3,493	3,377	3,386
Liabilities under shareholder loans and interest	0	500	0
Commission	95	50	39
Remaining other liabilities	1,173	1,328	793
Deferred income	131	160	75
	5,259	6,191	5,232

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

12. Other accruals

12.

Other accruals in the amount of 201T€ (31 December 2005: 226T€) include the warranty costs in the amount of 29T€ (31 December 2005: 29T€) and the vacant property provision in the amount of 172T€ (31 December 2005: 197T€).

13. Equity

13.

The development of the equity is presented in the consolidated development of shareholders' equity.

The subscribed capital developed as follows:

SUBSCRIBED CAPITAL	INDIVIDUAL SHARES	NOMINAL VALUE
	Number	€
Status at 30 June 2005	4,204,126	4,204,126
Increase in capital in return for contributions (entry of 16 August 2005)	74	74
Increase in capital from company funds (entry of 16 August 2005)	5,885,880	5,885,880
Increase in capital in return for cash contributions from the flotation on the stock exchange of 20 September 2005 (entry of 16 September 2005)	5,500,000	5,500,000
Increase in capital in return for cash contributions from the flotation on the stock exchange of 20 September 2005 (entry of 23 September 2005)	173,000	173,000
Status at 31 December 2005	15,763,080	15,763,080
Status at 30 June 2006	15,763,080	15,763,080

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). This resolution became effective with the entry of 30 June 2006.

The conditional capital II in the share capital serves the granting of the subscription rights to employees and members of the Management Board of the company and employees and managing directors of domestic and foreign subsidiaries based on the SQS share-based compensation plan 2006.

Authorised capital

By resolution of the General Meeting of 12 July 2005, the capital (243T€) previously authorised was revoked.

The Management Board was empowered, by resolution of the General Meeting of 12 July 2005, to increase the nominal capital by 3,500T€ up until 12 July 2010 with the approval of the Supervisory Board, either through one single or several issues of new individual registered shares, in return for cash or contributions in kind (authorised capital I). The power to increase the nominal capital was restricted to the purpose of acquisition of businesses or the acquisition of holdings in businesses.

In addition, the Management Board was empowered, likewise by resolution of 12 July 2005, to increase the nominal capital by 1,500T€ up until 12 July 2010 with the approval of the Supervisory Board, either through one single or several issues of new individual registered shares in return for cash or contributions in kind (authorised capital II).

By resolution of the General Meeting of 2 June 2006 the Management Board is, with the consent of the Supervisory Board, authorised to increase the Company's share capital until 1 June 2011 once or several times up to a maximum amount of 2,881,540€ by issuance of new registered non-par value shares against cash contribution and/or contribution in kind (authorised capital III). This resolution became effective with the entry in the commercial register on 30 June 2006.

The Management Board resolved on 20 June 2006, with the approval of the Supervisory Board on 21 June 2006, using the authorisation of 12 July 2005, on the increase of the share capital from 15,763,080.00€ to 17,190,823.00€ by issuance of 1,427,743 new registered non-par value shares against contribution in kind.

The contribution in kind shall be 34,210,761 shares in Cresta Group Limited, Mill Lane House, Mill Lane, Ightham, Sevenoaks, Kent TN15 9BH, Great Britain. The consideration for this contribution shall be the new registered non-par value shares in the Company as well as the cash amount of approximately 4,366,245€.

The increase of the share capital became effective with the entry of 3 July 2006.

Once this transaction is effective on 3 July 2006 the remaining authorised capital I amounts to 2,072,257€.

Thereafter, the authorised capital developed as follows:

AUTHORISED CAPITAL		T€
Status at 30 June 2005		243
Revocation of the authorised capital		(243)
Increase in the authorised capital 1		3,500
Increase in the authorised capital 2		1,500
Increase in the authorised capital 3		2,882
Status at 30 June 2006		7,882

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.

No change in this item compared to 30 June 2005.

Profits were allocated to the parent company in the amount of 0€ (half year 2005: 1T€). Since the losses accrued up until 2003 in individual subsidiaries are not covered by capital contributions of minority shareholders, the profits were, in accordance with IAS 27.35, allocated to the parent company. Profits are allocated in full to the parent company until the losses have been offset. This affects only one subsidiary as at 30 June 2006.

15. Notes to the statement of cash flow

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 "Stollwerckstrasse GbR mbH", Cologne, and "Am Westhover Berg GbR mbH", Cologne, since these are likewise dominated by the married couples mentioned. In addition, SQS regards the German regional managers as well as the directors of subsidiary companies (senior executives) as belonging to this circle of persons.

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. The senior management (regional managers, directors of subsidiary companies) of SQS hold shares as follows:

DETAILS OF INDIVIDUAL SHARES

	SIX MONTHS ENDED 30 JUNE 2006	SIX MONTHS ENDED 30 JUNE 2005	YEAR ENDED 31 DECEMBER 2005
	Non-par shares	Non-par shares	Non-par shares
Heinz Bons, Member of Management Board	3,295,945	1,699,344	3,295,945
Maria Helene Bons, née Peters	932,544	388,560	932,544
Rudolf van Megen, Member of Management Board	3,657,647	1,699,344	3,657,647
Ilona van Megen, née Rumsch	932,544	388,560	932,544
René Gawron, Member of Management Board	2,289	160	2,289
Shares held by senior executives	59,086	12,209	59,086
Total	8,880,055	4,188,177	8,880,055

In addition, Mr Bons administers on trust alone (in Germany) and jointly (in UK) with a senior executive of SQS Group (UK) Ltd a further 113,070 shares (half-year 2005: 25,510 shares) within the framework of the employee participation programme.

The total emoluments of the Management Board members amounted in the interim period ended 30 June 2006 to 484T€ (half-year 2005: 446T€). The emoluments of the Supervisory Board members amounted in total to 41T€ (half-year 2005: 17T€) of which 41T€ had not been paid by the end of the interim period.

As a part of the remuneration for the Management Board activities, SQS has granted a pension commitment to two Management Board members. These pension plans amount to 325T€ (half-year 2005: 343T€).

Within the framework of a stock option programme, the two major shareholders have granted shares to employees from their own holdings in SQS shares.

Mrs Bons and Mrs van Megen are employed at SQS and have received remuneration in a total of 7T€ (half-year 2005: 5T€).

No claims or liabilities existed between the company and the two major shareholders at the date of these interim statements (half-year 2005: 513T€).

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.

Senior Management (regional managers, directors of subsidiary companies) receive remuneration at rates usual in the market, including the usual ancillary benefits.

SQS uses property owned by the closed real estate investment fund "Stollwerckstrasse GbR mbH", Cologne, and, since the business year 2001, 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 conditions of use agreed are compatible with normal market conditions. The total expenses incurred under these contracts amounted in the interim period to 647T€ (half-year 2005: 687T€).

Members of the Management Board held 44.1% (half-year 2005: 80.8%) of the shares in SQS as at 30 June 2006.

17. Proposed dividend

17.

The General Meeting of 2 June 2006 resolved not to pay any dividend for the business year 2005. The profit for the year is to be taken in full to retained earnings.

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.

SQS Software Quality System AG has agreed to acquire 100% of the shares of Cresta Group Limited ("Cresta") for a consideration of up to £18 mill. SQS will merge its UK operation with Cresta to create the largest independent pureplay software testing and quality management consulting practice in the UK.

Cresta has 200 employees and is headquartered in Central London, with a subsidiary in Ireland and an office in South Africa. For the year ended 31 December 2005, Cresta recorded turnover of £12.9 mill. (2004: £8.4 mill.) and profit before tax of £0.72 mill. (2004: £0.53 mill.). The net assets being acquired in this transaction had a book value of £1.4 mill. as at 31 December 2005.

The consideration for the acquisition will comprise SQS shares up to a maximum of 78% of the deal value with the remainder in cash. The initial consideration of £6 mill. (£3 mill. in cash and £3 mill. by the issue of 1,427,743 new ordinary shares in SQS) will be paid upon completion, with the balance to be paid depending on the achievement of specific earn out targets over the next two years, up to an additional maximum of £12 mill. SQS will apply to AIM for admission of the 1,427,723 initial consideration shares on completion, which became effective on 3 July 2006. The new shares will rank pari passu with the existing ordinary shares.

The German commercial register listed the new shares on 3 July 2006 and therefore the transaction became effective.

Cologne, 6 September 2006
SQS Software Quality Systems AG



H. Bons

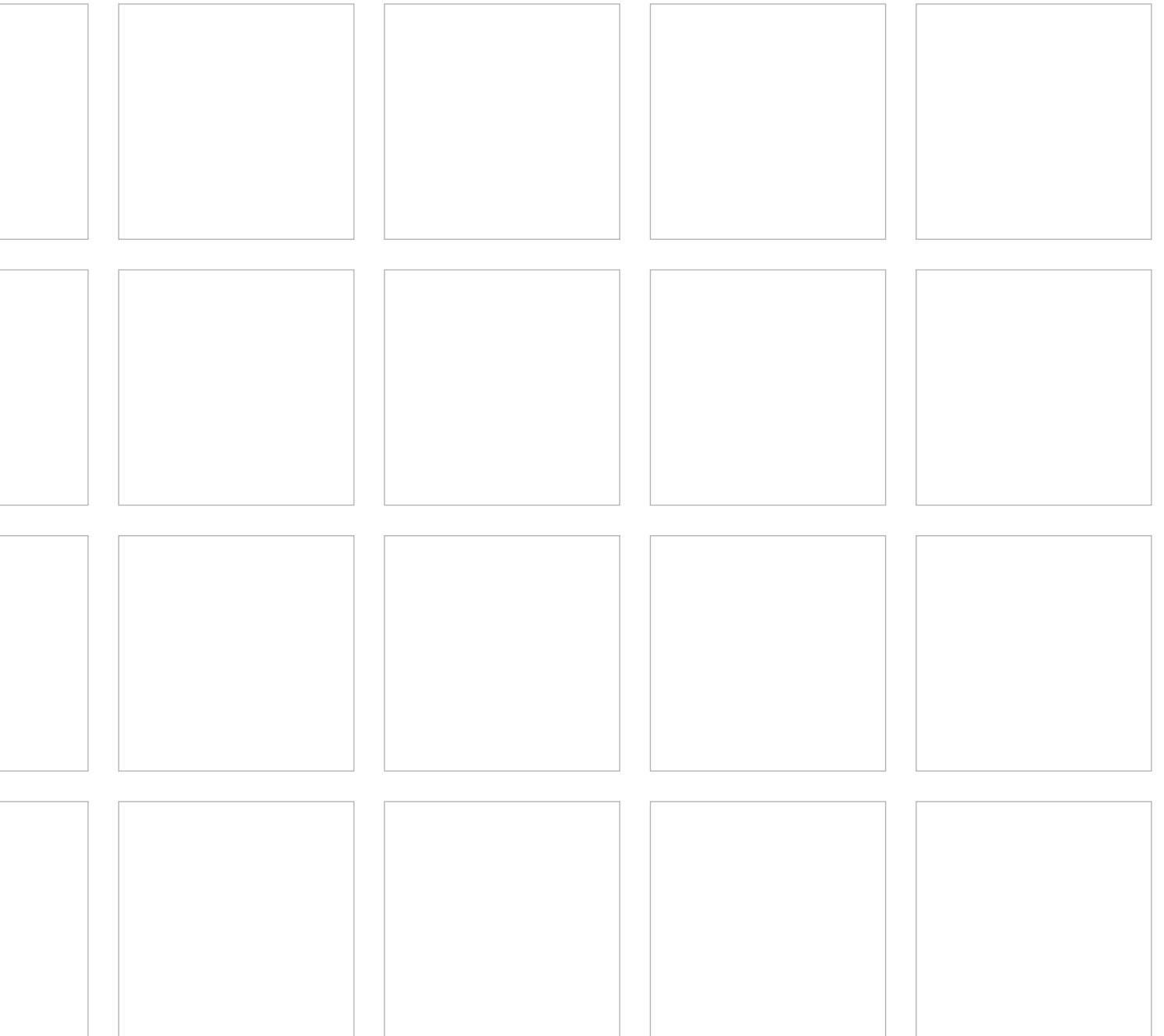


R. Gawron



R. van Megen

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