VODAFONE GROUP PUBLIC LTD CO
Form 6-K
February 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rules 13a-16 or 15d-16 under

the Securities Exchange Act of 1934

Dated February 09, 2011

Commission File Number: 001-10086

VODAFONE GROUP

PUBLIC LIMITED COMPANY

(Translation of registrant s name into English)

VODAFONE HOUSE, THE CONNECTION, NEWBURY, BERKSHIRE RG14 2FN, ENGLAND

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ü Form 40-F _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____ No ü

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN EACH OF THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO. 333-168347), THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-81825) AND THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-149634) OF VODAFONE GROUP PUBLIC LIMITED COMPANY AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

This report on Form 6-K contains Vodafone Group Plc s (Vodafone) interim management statement for the quarter ended 31 December 2010.

Use of Non-GAAP Financial Information

In presenting and discussing our reported operating results and cash flows, certain information is derived from amounts calculated in accordance with International Financial Reporting Standards (IFRS), but this information is not itself an expressly permitted GAAP measure. Such non-GAAP measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

Cash flow measures

In presenting and discussing our reported results, free cash flow is calculated and presented even though this measure is not recognised under IFRS. We believe that it is both useful and necessary to communicate free cash flow to investors and other interested parties, for the following reasons:

- free cash flow allows us and external parties to evaluate our liquidity and the cash generated by our operations. Free cash flow does not include payments for licences and spectrum included within intangible assets, items determined independently of the ongoing business, such as the level of dividends, and items which are deemed discretionary such as cash flows relating to acquisitions and disposals or certain financing activities. In addition it does not necessarily reflect the amounts which we have an obligation to incur. However, it does reflect the cash available for such discretionary activities, to strengthen the consolidated statement of financial position or to provide returns to shareholders in the form of dividends or share purchases;
- free cash flow facilitates comparability of results with other companies although our measure of free cash flow may not be directly comparable to similarly titled measures used by other companies;
- this measure is used by management for planning, reporting and incentive purposes; and
- this measure is useful in connection with discussions with the investment analyst community and debt rating agencies.

A reconciliation of cash generated by operations, the closest equivalent GAAP measure, to free cash flow is provided below:

	Quarter ended 31 December	
	2010	2009
	£m	£m
Cash generated by operations	**3,557**	4,134
Cash capital expenditure, net of disposals(1)	**(1,470)**	(1,550)
Dividends received from associates and investments	**210**	162
Other	**(1,211)**	(939)
Free cash flow	**1,086**	1,807

Note:

(1) Cash paid for the purchase of property, plant and equipment and intangible assets other than licence and spectrum payments.

Organic growth

All amounts in this report marked with an (*) represent organic growth which presents performance on a comparable basis, both in terms of merger and acquisition activity and foreign exchange rates. We believe that organic growth , which is not intended to be a substitute for or superior to reported growth, provides useful and necessary information to investors and other interested parties for the following reasons:

- it provides additional information on underlying growth of the business without the effect of certain factors unrelated to the operating performance of the business;
- it is used for internal performance analysis; and
- it facilitates comparability of underlying growth with other companies, although the term organic is not a defined term under IFRS and may not, therefore, be comparable with similarly titled measures reported by other companies.

Reconciliations of organic growth to reported growth can be found below and on pages 8, 10 and 12. Furthermore, all amounts in this document marked with an (*) represent organic growth.

					% change
			M&A	Foreign	
		Organic	activity	exchange	Reported
Group					
Revenue	Q3	3.5	0.2	(0.7)	3.0
Other revenue	Q3	16.3	(1.5)	0.2	15.0
Europe					
Enterprise revenue	Q3	1.3	0.2	(3.9)	(2.4)
Enterprise revenue	Q2	0.2	0.1	(3.5)	(3.2)
Germany data revenue	Q3	28.5		(6.5)	22.0
Italy data revenue	Q3	21.7		(6.1)	15.6
Italy fixed line revenue	Q3	8.9		(6.1)	2.8
Spain data revenue	Q3	11.9		(5.3)	6.6
UK data revenue	Q3	29.5			29.5
Netherlands service revenue	Q3	6.1	(10.9)	(4.8)	(9.6)
Turkey service revenue	Q3	31.7	3.8	7.5	43.0
Germany service revenue(1)	Q3	2.3		(4.9)	(2.6)
Germany mobile service revenue	Q3	3.6		(5.0)	(1.4)
Africa, Middle East and Asia Pacific					

Egypt service revenue	Q3	1.3		(1.9)	(0.6)	
Vodacom service revenue(2)	Q3	4.6		10.7	15.3	
VHA service revenue	Q3	10.3		13.5	23.8	
Vodacom s operations outside South Africa service revenue	Q3	14.0		0.1	14.1	
Previous regional structure						
Europe service revenue	Q2	(0.8)		(3.7)	(4.5)	
Africa and Central Europe service revenue	Q2	5.8	0.5	5.7	12.0	
Asia Pacific and Middle East service revenue	Q2	12.2	0.1	10.9	23.2	
Non-controlled interests						
Verizon Wireless service revenue	Q3	7.0	4.0	(3.5)	7.5	

Note:

(1) Excluding termination rate cuts.

(2) Excluding the impact of reclassifications between non-service revenue and service revenue during the quarter.

Reconciliations of movements in organic revenue growth in service revenue and revenue between the current quarter (Q3 2011) and the previous quarter (Q2 2011) can be found below.

						% change
				M&A	Foreign	
			Organic	activity	exchange	Reported
Service revenue	Europe	Q3 2011	0.2	0.1	(3.8)	(3.5)
		Q2 2011	0.1	0.1	(3.4)	(3.2)
		Change	0.1		(0.4)	(0.3)
	Africa, Middle East and Asia Pacific	Q3 2011	9.3	0.1	8.7	18.1
		Q2 2011	9.0	0.4	11.0	20.4
		Change	0.3	(0.3)	(2.3)	(2.3)
	Group	Q3 2011	2.5	0.4	(0.8)	2.1
		Q2 2011	2.3	0.4	(0.2)	2.5
		Change	0.2		(0.6)	(0.4)
	Egypt	Q3 2011	1.3		(1.9)	(0.6)
		Q2 2011	(0.8)		3.6	2.8
		Change	2.1		(5.5)	(3.4)
Revenue	Group	Q3 2011	3.5	0.2	(0.7)	3.0
		Q2 2011	2.7	0.4	(0.2)	2.9
		Change	0.8	(0.2)	(0.5)	0.1

INTERIM MANAGEMENT STATEMENT FOR THE QUARTER ENDED

31 DECEMBER 2010

Further improvements in revenue growth

- Group service revenue +2.5%(*), fifth sequential quarter of improvement - both regions delivered faster growth rates

- Strong service revenue growth in India +16.7%(*), Turkey +31.7%(*), the UK +7.0%(*) and Vodacom +5.6%(*). Excluding termination rate cuts, growth was solid in Germany at +2.3%(*) (headline +1.1%(*)). Performance was stable in Italy with revenue growth of -1.4%(*). Conditions remain challenging in Spain at -7.4%(*)

- Verizon Wireless service revenue +7.0%(*); strong customer and data growth. iPhone from February 2011

- Underlying free cash flow generation remains strong

- Outlook confirmed, with adjusted operating profit now expected to be towards the upper end of the £11.8 -£12.2 billion range before the impact of the Verizon Wireless iPhone launch

	Quarter ended 31 December 2010 £m	Change year on year Reported %	Organic %	Change compared to Q2 Organic pps
Group revenue	**11,894**	**+3.0**	**+3.5**	+0.8
Group service revenue	**10,960**	**+2.1**	**+2.5**	**+0.2**
Europe	7,657	(3.5)	+0.2	+0.1
Africa, Middle East and Asia Pacific	3,210	+18.1	+9.3	+0.3
Capital expenditure	**1,545**	**+14.5**		
Free cash flow	**1,086**	**(39.9)**		

Progress against strategic priorities

- Data: revenue +27.2%(*) led by higher smartphone penetration and data attach rates in Europe

- European data pricing: tiered plans launched in eight markets. New smartphone roaming plans launched in November

- Enterprise: improved trend with Europe service revenue +1.3%(*) and Vodafone Global Enterprise revenue up approximately 6%(*)

- Total communications: fixed line revenue +4.7%(*), with fixed broadband customers +11.7%(*)

- Shareholder returns: £1.1 billion of £2.8 billion share buy-back executed by the end of the quarter

Vittorio Colao, Chief Executive, commented

This is the fifth successive quarter of service revenue growth improvement, with strong results from India, Turkey, the UK and Vodacom. In addition, Verizon Wireless continues to show strong momentum. Our performance has been driven by the effective execution of our strategy to strengthen our businesses and deliver growth, particularly in data services and emerging markets.

OPERATING REVIEW

Group overview

Group revenue increased by 3.5%(*) to £11.9 billion and Group service revenue increased by 2.5%(*) to £11.0 billion. This represents a further improvement on the previous quarter with both regions delivering improved service revenue growth.

Europe service revenue growth continued to be positive at 0.2%(*), a 0.1 percentage point improvement on the previous quarter. We delivered strong service revenue growth in the UK at 7.0%(*) and Turkey at 31.7%(*). In Germany, where we benefited from the introduction of the iPhone in October, service revenue grew 2.3%(*) after adjusting for the impact of termination rate cuts, with mobile service revenue up 3.6% on the same basis. Spain continued to see declining organic service revenue growth as a result of the challenging economic environment and an increasingly competitive market. In Italy the rate of organic service revenue decline was broadly unchanged, however, we continue to react in this increasingly competitive market. Our southern European markets continue to be impacted by weak economic environments.

The Group changed its organisational structure on 1 October 2010(1). On the basis of the previous structure, service revenue growth in Europe was -0.9%(*) for the quarter compared to -0.8%(*) in the previous quarter.

In Africa, Middle East and Asia Pacific service revenue grew 9.3%(*), a 0.3 percentage point improvement on the previous quarter. Organic service revenue growth in India and Vodacom was ahead of the previous quarter with improvements driven by strong net customer additions of 8.7 million and 2.2 million respectively, strong usage trends and continued growth from data services.

At Verizon Wireless, service revenue grew by 7.0%(*) driven by good net customer growth and higher data revenue led by smartphone sales. On 11 January 2011 Verizon Wireless announced that it would begin to sell the iPhone from 10 February 2011.

Data revenue continues to drive our growth strategy, with growth of 27.2%(*) resulting from strong smartphone and mobile connectivity sales. On an annualised basis the Group s data revenue has grown to over £5 billion, exceeding messaging revenue for the first time ever. Enterprise revenue growth increased to 1.3%(*) in Europe, compared to 0.2%(*) in the previous quarter, with good performance in Italy, the UK and in Germany reflecting several significant enterprise client wins. Fixed line revenue grew by 4.7%(*) driven by positive net customer additions taking the fixed broadband customer base to 6.0 million.

Capital expenditure was £1.5 billion, 14.5% higher than the same quarter last year mainly as a result of timing issues. Year to date, capital expenditure increased by 0.7%. The key drivers were India, where import restrictions were lifted and deployment of the 3G network has begun, continued network enhancement in Turkey, investment in Vodacom s South African mobile data network and continued capital expenditure in Europe to maintain superior network quality.

Free cash flow before licence and spectrum payments and one-off tax related payments was £1.1 billion, lower than last year due primarily to working capital movements as the Group took advantage of early settlement terms in December. Cumulative free cash flow generation to 31 December of £4.6 billion is consistent with our expectations for free cash flow guidance for the year.

Net debt at 31 December 2010 was £30.3 billion, slightly lower than at 30 September 2010, as free cash flow generation and the initial proceeds from the sale of the Group s SoftBank interests broadly offset £1.0 billion of shares bought back under the share buy-back programme and one-off tax related payments in the UK, India and China during the quarter.

Note:

(*) All amounts in this document marked with an (*) represent organic growth which presents performance on a comparable basis, both in terms of merger and acquisition activity and foreign exchange rates.

OPERATING REVIEW

Guidance for the 2011 financial year(2)(3)

In the third quarter, overall trading was consistent with our expectations underlying financial guidance for the current financial year. We continue to expect a full year EBITDA margin decline at a substantially lower rate than that experienced in the 2010 financial year.

We now expect adjusted operating profit to be towards the upper end of the £11.8 - 12.2 billion range that we communicated in November. This is before taking into account the impact of the Verizon Wireless iPhone launch, which we will separately identify when we release our preliminary results in May.

Free cash flow is still expected to be in excess of £6.5 billion and we intend to maintain capital expenditure at a similar level to the 2010 financial year, adjusted for foreign exchange rate movements, as we continue to invest to support the quality of our networks.

Summary

This fifth sequential improvement in Vodafone s quarterly service revenue growth rate has been delivered through effective commercial execution across the Group s regions and demonstrates the successful implementation of the Group s strategy to strengthen its businesses and to deliver growth from data services and emerging markets in particular.

We are now focused on implementing our updated strategy to deliver sustainable revenue growth and stabilising EBITDA margins over the medium-term. This, together with our pursuit of liquidity and value from the Group s non-controlled investments, is expected to drive enhanced free cash flow and returns for shareholders.

Notes:

(1) See Change in segments on page 14.

(2) The guidance ranges for the 2011 financial year set out on page 37 of the Group s 2010 annual report and the updated guidance for the 2011 financial year set out on page 7 of the Group s 2010/11 H1 results and strategy update included full year foreign exchange rate assumptions of £1: 1.15 and £1:US$1.50. The actual rates experienced during the nine months ended 31 December 2010 were £1: 1.18 and £1:US$1.54. On a full year basis a 1% change in the euro / sterling exchange rate would impact adjusted operating profit by approximately £70 million and free cash flow by approximately £60 million and a 1% change in the dollar / sterling exchange rate would impact adjusted operating profit by approximately £45 million.

(3) The Group s guidance does not include the impact of licence and spectrum purchases, material one-off tax related payments and settlements, and restructuring costs and assumes no material change to the current structure of the Group.

OPERATING REVIEW

Europe

Revenue declined by 1.9% reflecting a 3.8 percentage point impact from unfavourable foreign exchange rate movements. On an organic basis service revenue increased by 0.2%(*) reflecting continued growth in Germany, the UK, the Netherlands and Turkey which more than offset the declines in the Group s southern and other central European marketsStrong growth in data revenue of 22.7%(*) offset lower voice revenue driven by the weak economic environment as well as continued market and regulatory pressure.

Revenue	Quarter ended 31 December					Change
	2010	2009	Reported	M&A activity	Foreign exchange	Organic
	£m	£m	%	%	%	%
Germany	1,915	1,991	(3.8)		(4.9)	1.1
Italy	1,378	1,470	(6.3)		(4.9)	(1.4)
Spain	1,170	1,328	(11.9)		(4.5)	(7.4)
UK	1,260	1,177	7.0			7.0
Other Europe(1)	1,990	2,023	(1.6)	0.6	(3.4)	1.2
Eliminations	(56)	(57)				
Service revenue(1)	**7,657**	**7,932**	**(3.5)**	**0.1**	**(3.8)**	**0.2**
Other revenue	602	489	23.1		(4.8)	27.9
Revenue(1)	**8,259**	**8,421**	**(1.9)**	**0.1**	**(3.8)**	**1.8**

Note:

(1) The Group revised its segment structure on 1 October 2010. See Change in segments on page 14.

Germany

Service revenue grew by 1.1%(*) driven by strong data revenue growth of 28.5%(*), which benefited from investment to drive smartphone and Superflat Internet tariff penetration, growth in enterprise revenue supported by contract wins and continued improvement in messaging trends. The growth rate slowed compared to the previous quarter due to the impact of a termination rate cut effective from 1 December 2010, ongoing competition and a decline in fixed line revenue as customers optimised their tariffs. The long-term evolution (LTE) network launched commercially on 1 December 2010.

Italy

Service revenue declined by 1.4%(*), in line with the previous quarter reflecting continued economic weakness and price competition. Strong growth in data revenue of 21.7%(*) was supported by continued investment to improve the quality and coverage of the network and by the relaunch of commercial offers and promotions which contributed to a further increase in smartphone penetration. Enterprise revenue continued to grow, driven by an increase in the customer base. Growth in fixed line revenue of 8.9%(*) resulted from strong net customer additions as the closing fixed broadband customer base increased to 1.6 million on a 100% basis.

Spain

Service revenue declined by 7.4%(*) driven by continued economic weakness, including high unemployment and increased price competition. Customer investment and new integrated tariffs led to a 4.1% increase in the average contract customer base which partially offset the negative price pressures. Strong data revenue growth of 11.9%(*) was driven by the impact of an increase in smartphones sold with data bundles.

UK

Service revenue grew by 7.0%(*) driven by 29.5%(*) growth in data revenue due to the higher penetration of smartphones and data bundles. This growth was also supported by strong net contract customer additions and improved ARPU, which more than offset continued competitive pressures and weaker prepaid revenue.

OPERATING REVIEW

Other Europe

Service revenue increased by 1.2%(*) as growth in Hungary, the Netherlands and Turkey more than offset a weaker performance in the rest of the region, particularly in Greece, which continued to be impacted by the challenging economic environment and intense competitive factors.

In Turkey service revenue grew by 31.7%(*), despite a 52% cut in termination rates effective from 1 April 2010, driven by strong growth in the contract customer base and data revenue which benefited from improved brand awareness, innovative tariffs and continued network enhancement. In the Netherlands service revenue increased by 6.1%(*) due to a higher customer base and strong data and messapparel and home goods retailer in the United States. As of August 1, 2009, we operated 939 Ross Dress for Less (Ross) store locations in 27 states and Guam, and 51 dd s DISCOUNTS stores in four states. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear and home fashions at everyday savings of 20% to 60% off department and specialty store regular prices. dd s DISCOUNTS features a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions at everyday savings of 20% to 70% off moderate department and discount store regular prices.

Results of Operations

The following table summarizes the financial results for the three and six month periods ended August 1, 2009 and August 2, 2008:

	Three Months Ended		Six Months Ended	
	August 1, 2009	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Sales				
Sales (millions)	**$ 1,769**	$ 1,640	**$ 3,460**	$ 3,197
Sales growth	**7.8%**	13.6%	**8.2%**	12.0%
Comparable store sales growth	**3%**	6%	**3%**	5%
Costs and expenses (as a percent of sales)				
Cost of goods sold	**74.1%**	76.5%	**74.6%**	76.2%
Selling, general and administrative	**16.2%**	16.4%	**16.1%**	16.2%
Interest expense (income), net	**0.1%**	(0.1)%	**0.1%**	(0.1)%
Earnings before taxes	**9.6%**	7.2%	**9.2%**	7.7%
Net earnings	**5.8%**	4.3%	**5.6%**	4.7%

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Stores. Our expansion strategy is to open additional stores based on market penetration, local demographic characteristics, competition, expected store profitability, and the ability to leverage overhead expenses. We continually evaluate opportunistic real estate acquisitions and opportunities for potential new store locations. We also evaluate our current store locations and determine store closures based on similar criteria.

	Three Months Ended		**Six Months Ended**	
	August 1, 2009	August 2, 2008	**August 1, 2009**	August 2, 2008
Stores at the beginning of the period	**974**	918	**956**	890
Stores opened in the period	**19**	26	**38**	54
Stores closed in the period	**(3)**	(1)	**(4)**	(1)
Stores at the end of the period	**990**	943	**990**	943

Sales. Sales for the three month period ended August 1, 2009 increased $128.2 million, or 7.8%, compared to the three month period ended August 2, 2008, due to the addition of 47 net new stores opened between August 2, 2008 and August 1, 2009 and a 3% increase in comparable store sales (defined as stores that have been open for more than 14 complete months). Sales for the six month period ended August 1, 2009 increased $263.5 million, or 8.2%, compared to the six month period ended August 2, 2008, with comparable store sales up 3% on top of a 5% gain in the prior year.

Our sales mix is shown below for the three and six month periods ended August 1, 2009 and August 2, 2008:

	Three Months Ended		**Six Months Ended**	
	August 1, 2009	August 2, 2008	**August 1, 2009**	August 2, 2008
Ladies	**33%**	34%	**33%**	34%
Home accents and bed and bath	**22%**	22%	**22%**	22%
Men's	**13%**	14%	**13%**	14%
Shoes	**12%**	11%	**12%**	11%
Accessories, lingerie, fine jewelry, and fragrances	**12%**	11%	**12%**	11%
Children's	**8%**	8%	**8%**	8%
Total	**100%**	100%	**100%**	100%

We expect to address the competitive climate for off-price apparel and home goods by pursuing and refining our existing strategies and by continuing to strengthen our organization, to diversify our merchandise mix, and to more fully develop our organization and systems to improve regional and local merchandise offerings. Although our strategies and store expansion program contributed to sales gains for the three and six month periods ended August 1, 2009, we cannot be sure that they will result in a continuation of sales growth or in an increase in net earnings.

Cost of goods sold. Cost of goods sold for the three month period ended August 1, 2009 increased $55.9 million compared to the same period in the prior year mainly due to increased sales from the opening of 47 net new stores between August 2, 2008 and August 1, 2009 and a 3% increase in comparable store sales.

Cost of goods sold as a percentage of sales for the three month period ended August 1, 2009 decreased approximately 240 basis points from the same period in the prior year. This improvement was driven primarily by a 145 basis point increase in merchandise gross margin, a 75 basis point reduction in freight costs, a reduction of about 25 basis points in occupancy expense, and an approximate 5 basis point improvement in distribution costs. These favorable trends were partially offset by a 10 basis point increase in buying and incentive costs.

Cost of goods sold for the six month period ended August 1, 2009 increased $143.1 million compared to the same period in the prior year mainly due to increased sales from the opening of 47 net new stores between August 2, 2008 and August 1, 2009 and a 3% increase in comparable store sales.

Cost of goods sold as a percentage of sales for the six month period ended August 1, 2009 decreased approximately 165 basis points from the same period in the prior year. This improvement was driven primarily by a 110 basis point increase in merchandise gross margin, a 70 basis point reduction in freight costs, and a reduction of about 20 basis points in occupancy expense. These improvements were partially offset by a 35 basis point increase in buying and incentive costs.

We cannot be sure that the gross profit margins realized for the three and six month periods ended August 1, 2009 will continue in the future.

Selling, general and administrative expenses. For the three month period ended August 1, 2009, selling, general and administrative expenses increased $17.3 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 47 net new stores between August 2, 2008 and August 1, 2009.

Selling, general and administrative expenses as a percentage of sales for the three month period ended August 1, 2009 decreased by approximately 20 basis points over the same period in the prior year, mainly driven by leverage on store operating expenses.

For the six month period ended August 1, 2009, selling, general and administrative expenses increased $41.7 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 47 net new stores between August 2, 2008 and August 1, 2009.

Selling, general and administrative expenses as a percentage of sales for the six month period ended August 1, 2009 remained approximately flat compared to the same period in the prior year.

Interest expense (income), net. Net interest expense increased for the three and six month periods ended August 1, 2009 by approximately $2.4 million and $5.7 million, respectively, as compared to the same periods in the prior year primarily due to lower interest rates on cash and investments.

Taxes on earnings. Our effective tax rate for the three and six month periods ended August 1, 2009 and August 2, 2008 was approximately 39%, which represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns. The effective rate is affected by changes in law, location of new stores, level of earnings, and the result of tax positions with various taxing authorities. We anticipate that our effective tax rate for fiscal 2009 will be in the range of 38% to 40%.

Earnings per share. Diluted earnings per share for the three month period ended August 1, 2009 was $0.82 compared to $0.54 in the prior year period. The 52% increase in diluted earnings per share is attributable to a 45% increase in net earnings and a 5% reduction in weighted average diluted shares outstanding primarily due to the repurchase of common stock under our stock repurchase program. Diluted earnings per share for the six month period ended August 1, 2009 was $1.55 compared to $1.13 in the prior year period. The 37% increase in diluted earnings per share is attributable to a 29% increase in net earnings and a 5% reduction in weighted average diluted shares outstanding primarily due to the repurchase of common stock under our stock repurchase program.

Financial Condition

Liquidity and Capital Resources

Our primary sources of funds for our business activities are cash flows from operations and short-term trade credit. Our primary ongoing cash requirements are for merchandise inventory purchases, capital expenditures in connection with opening new stores, and investments in distribution centers and information systems. We also use cash to repurchase stock under our stock repurchase program and to pay dividends.

($000)	Six Months Ended August 1, 2009	August 2, 2008
Cash flows provided by operating activities	**$ 413,968**	$ 306,556
Cash flows used in investing activities	**(63,910)**	(115,305)
Cash flows used in financing activities	**(150,989)**	(139,277)
Net increase in cash and cash equivalents	**$ 199,069**	$ 51,974

Operating Activities

Net cash provided by operating activities was $414.0 million for the six month period ended August 1, 2009 compared to $306.6 million for the six month period ended August 2, 2008. The primary source of cash provided by operating activities for the six month periods ended August 1, 2009 and August 2, 2008 was accounts payable and net earnings plus non-cash expenses for depreciation and amortization. The increase in cash flow from operating activities for the six month period ended August 1, 2009 primarily resulted from an increase in accounts payable leverage as a result of faster inventory turns. Accounts payable leverage (defined as accounts payable divided by merchandise inventory) was 61% as of January 31, 2009 and increased to 76% as of August 1, 2009. Accounts payable leverage was 67% as of August 2, 2008.

Working capital (defined as current assets less current liabilities) was $468.1 million as of August 1, 2009, compared to $394.6 million as of August 2, 2008. Our primary source of liquidity is the sale of our merchandise inventory. We regularly review the age and condition of our merchandise and are able to maintain current merchandise inventory in our stores through replenishment processes and liquidation of slower-moving merchandise through clearance markdowns.

Investing Activities

During the six month periods ended August 1, 2009 and August 2, 2008, our capital expenditures were approximately $80.7 million and $113.5 million, respectively. Our capital expenditures included fixtures and leasehold improvements to open new stores, implement information technology systems, build or expand distribution centers, and install material handling equipment and related distribution center systems, and various other expenditures related to our stores, buying, and corporate offices. We opened 38 and 54 new stores on a gross basis during the six month periods ended August 1, 2009 and August 2, 2008, respectively.

We are forecasting approximately $180 million in capital requirements in fiscal year 2009 to fund expenditures for fixtures and leasehold improvements to open new Ross and dds DISCOUNTS stores, for the relocation or upgrade of existing stores, for investments in store and merchandising systems, buildings, equipment and systems, and for various buying and corporate office expenditures. We expect to fund these expenditures with cash flows from operations.

Financing Activities

During the six month periods ended August 1, 2009 and August 2, 2008, our liquidity and capital requirements were provided by available cash, cash flows from operations, and trade credit. Our buying offices, our corporate headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but two of our store locations are leased and, except for certain leasehold improvements and equipment, do not represent capital investments. We own one distribution center in each of the following cities: Carlisle, Pennsylvania, Moreno Valley, California, and Fort Mill, South Carolina, and one warehouse facility in Fort Mill, South Carolina.

In January 2008, our Board of Directors approved a two-year $600 million stock repurchase program for fiscal 2008 and 2009. We repurchased 4.2 million shares of common stock for an aggregate purchase price of approximately $154.4 million during the six month period ended August 1, 2009. We repurchased 4.6 million shares of common stock for approximately $152.6 million during the six month period ended August 2, 2008.

For the six month periods ended August 1, 2009 and August 2, 2008, dividends paid were $27.8 million and $24.9 million, respectively.

Short-term trade credit represents a significant source of financing for merchandise inventory. Trade credit arises from customary payment terms and trade practices with our vendors. We regularly review the adequacy of credit available to us from all sources and expect to be able to maintain adequate trade, bank, and other credit lines to meet our capital and liquidity requirements, including lease payment obligations in 2009.

Our $600 million credit facility remains in place and available as of August 1, 2009 and expires in July 2011.

We estimate that cash flows from operations, bank credit lines, and trade credit are adequate to meet operating cash needs, fund our planned capital investments, repurchase common stock, and make quarterly dividend payments for at least the next twelve months.

Contractual Obligations

The table below presents our significant contractual obligations as of August 1, 2009:

($000) **Contractual Obligations**	**Less than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**After 5 Years**	**Total[1]**
Senior notes	$ --	$ --	$ --	$ 150,000	$ 150,000
Interest payment obligations	9,667	19,335	19,335	55,029	103,366
Capital leases	385	157	--	--	542
Operating leases:					
Rent obligations	325,653	640,675	492,819	517,461	1,976,608
Synthetic leases	5,824	8,909	3,750	--	18,483
Other synthetic lease obligations	838	1,535	56,000	--	58,373
Purchase obligations	993,737	10,136	1,452	--	1,005,325
Total contractual obligations	$ 1,336,104	$ 680,747	$ 573,356	$ 722,490	$ 3,312,697

[1]Pursuant to the guidelines of FIN 48, a $28.2 million reserve for unrecognized tax benefits is included in other long-term liabilities on our interim condensed consolidated balance sheet. These obligations are excluded from the schedule above as the timing of payments cannot be reasonably estimated.

Senior notes. We have a Note Purchase Agreement with various institutional investors for $150 million of unsecured, senior notes. The notes were issued in two series. The Series A notes totaling $85 million are due in December 2018 and bear interest at a rate of 6.38%. The Series B notes totaling $65 million are due in December 2021 and bear interest at a rate of 6.53%. Interest on these notes is included in Interest payment obligations in the table above.

Borrowings under these notes are subject to certain operating and financial covenants, including maintaining certain interest coverage and other financial ratios. As of August 1, 2009, we were in compliance with these covenants.

Capital leases. The obligations under capital leases relate to distribution center equipment and have terms of two to three years.

Off-Balance Sheet Arrangements

Operating leases. We lease our two buying offices, our corporate headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but two of our store locations. Except for certain leasehold improvements and equipment, these leased locations do not represent long-term capital investments.

We have lease arrangements for certain equipment in our stores for our point-of-sale ("POS") hardware and software systems. These leases are accounted for as operating leases for financial reporting purposes. The initial terms of these leases are either two or three years, and we typically have options to renew the leases for two to three one-year periods. Alternatively, we may purchase or return the equipment at the end of the initial or each renewal term. We have guaranteed the value of the equipment of $2.4 million at the end of the respective initial lease terms, which is included in Other synthetic lease obligations in the table above.

We lease approximately 181,000 square feet of office space for our corporate headquarters in Pleasanton, California, under several facility leases. The terms for these leases expire between 2010 and 2014 and contain renewal provisions.

We lease approximately 161,000 and 23,000 square feet of office space for our New York City and Los Angeles buying offices, respectively. The lease terms for these facilities expire in 2015 and 2014, respectively. The lease term for the New York office contains a renewal provision.

We lease a 1.3 million square foot distribution center in Perris, California. The land and building for this distribution center are financed under a $70 million ten-year synthetic lease that expires in July 2013. Rent expense on this center is payable monthly at a fixed annual rate of 5.8% on the lease balance of $70 million. At the end of the lease term, we have the option to either refinance the $70 million synthetic lease facility, purchase the distribution center at the amount of the then-outstanding lease obligation, or arrange a sale of the distribution center to a third party. If the distribution center is sold to a third party for less than $70 million, we have agreed under a residual value guarantee to pay the lessor any shortfall amount up to $56 million. Our contractual obligation of $56 million is included in Other synthetic lease obligations in the above table.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," we have recognized a liability and corresponding asset for the fair value of the residual value guarantee in the amount of $8.3 million for the Perris, California distribution center and $1.2 million for the POS leases. These residual value guarantees are being amortized on a straight-line basis over the original terms of the leases. The current portion of the related asset and liability is recorded in prepaid expenses and accrued expenses, respectively, and the long-term portion of the related assets and liabilities is recorded in other long-term assets and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets.

In November 2001, we entered into a nine year lease for a 239,000 square foot warehouse and a ten-year lease for a 246,000 square foot warehouse, both in Carlisle, Pennsylvania. In January 2009, we exercised a three-year lease option for a 253,000 square foot warehouse in Fort Mill, South Carolina, extending the lease term to February 2013. In June 2008, we purchased a 423,000 square foot warehouse also in Fort Mill, South Carolina. All four of these properties are used to store our packaway inventory. We also lease a 10-acre parcel of land that has been developed for trailer parking adjacent to our Perris distribution center.

The synthetic lease facilities described above, as well as our revolving credit facility and senior notes, have covenant restrictions requiring us to maintain certain interest coverage and other financial ratios. In addition, the interest rates under these agreements may vary depending on actual interest coverage ratios achieved. As of August 1, 2009 we were in compliance with these covenants.

Purchase obligations. As of August 1, 2009 we had purchase obligations of $1,005.3 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to store fixtures and supplies, and information technology service and maintenance contracts. Merchandise inventory purchase orders of $958.0 million are purchase obligations of less than one year as of August 1, 2009.

Commercial Credit Facilities

The table below presents our significant available commercial credit facilities at August 1, 2009:

($000)	**Total**

Commercial Credit Commitments	Amount of Commitment Expiration Per Period				
	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years	amount committed
Revolving credit facility	$ --	$ 600,000	$ --	$ --	$ 600,000
Total commercial commitments	$ --	$ 600,000	$ --	$ --	$ 600,000

Revolving credit facility. We have available a $600 million revolving credit facility with our banks, which contains a $300 million sublimit for issuance of standby letters of credit, of which $227.6 million was available at August 1, 2009. This credit facility which expires in July 2011 has a LIBOR-based interest rate plus an applicable margin (currently 45 basis points) and is payable upon maturity but not less than quarterly. Our borrowing ability under this credit facility is subject to our maintaining certain financial ratios. As of August 1, 2009 we had no borrowings outstanding under this facility and were in compliance with the covenants.

Standby letters of credit. We use standby letters of credit to collateralize certain obligations related to our self-insured workers' compensation and general liability claims. We had $72.4 million and $60.5 million in standby letters of credit outstanding at August 1, 2009 and August 2, 2008, respectively.

Trade letters of credit. We had $28.9 million and $28.2 million in trade letters of credit outstanding at August 1, 2009 and August 2, 2008, respectively.

Dividends. In August 2009, our Board of Directors declared a cash dividend of $.11 per common share, payable on September 30, 2009. Our Board of Directors declared quarterly cash dividends of $.11 per common share in January and May 2009, and $.095 per common share in January, May, August, and November 2008.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our condensed consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and on various other factors that management believes to be reasonable. Actual results may differ significantly from these estimates. During the second quarter of fiscal 2009, there have been no significant changes to the policies discussed in our Annual Report on Form 10-K for the year ended January 31, 2009.

Effects of inflation or deflation. We do not consider the effects of inflation or deflation to be material to our financial position and results of operations.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). SFAS 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. We do not believe the adoption of SFAS 167 will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162" ("SFAS 168") to become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not believe the adoption of SFAS 168 will have a material impact on our interim condensed consolidated financial statements.

Forward-Looking Statements

This report may contain a number of forward-looking statements regarding, without limitation, planned store growth, new markets, expected sales, projected earnings levels, capital expenditures, and other matters. These forward-looking statements reflect our then current beliefs, projections and estimates with respect to future events and our projected financial performance, operations, and competitive position. The words “plan,” “expect,” “target,” “anticipate,” “estimate,” “believe,” “forecast,” “projected,” “guidance,” “looking ahead” and similar expressions identify forward-looking statements.

Future economic and industry trends that could potentially impact revenue, profitability, and growth remain difficult to predict. As a result, our forward-looking statements are subject to risks and uncertainties which could cause our actual results to differ materially from these forward-looking statements and our expectations and projections. Refer to Part II, Item 1A in this Quarterly Report on Form 10-Q for a more complete discussion of risk factors. The factors underlying our forecasts are dynamic and subject to change. As a result, any forecasts or forward-looking statements speak only as of the date they are given and do not necessarily reflect our outlook at any other point in time. We disclaim any obligation to update or revise these forward-looking statements.

Other risk factors are detailed in our filings with the Securities and Exchange Commission including, without limitation, our Annual Report on Form 10-K for 2008.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks, which primarily include changes in interest rates. We do not engage in financial transactions for trading or speculative purposes.

We occasionally use forward contracts to hedge against fluctuations in foreign currency prices. We had no material outstanding forward contracts as of August 1, 2009.

Interest that is payable on our revolving credit facility is based on variable interest rates and is, therefore, affected by changes in market interest rates. As of August 1, 2009, we had no borrowings outstanding under our revolving credit facility. In addition, lease payments under certain of our synthetic lease agreements are determined based on variable interest rates and are, therefore affected by changes in market interest rates.

In addition, we issued notes to institutional investors in two series: Series A for $85 million accrues interest at 6.38% and Series B for $65 million accrues interest at 6.53%. The amount outstanding under these notes as of August 1, 2009 is $150 million.

Interest is receivable on our short- and long-term investments. Changes in interest rates may impact interest income recognized in the future, or the fair value of our investment portfolio.

A hypothetical 100 basis point increase or decrease in prevailing market interest rates would not have materially impacted our consolidated financial position, results of operations, cash flows, or the fair values of our short- and long-term investments as of and for the three and six month periods ended August 1, 2009. We do not consider the potential losses in future earnings and cash flows from reasonably possible, near term changes in interest rates to be material.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Quarterly Evaluation of Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the second fiscal quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our management concluded that there was no such change during the second fiscal quarter.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The matters under the caption Provision for litigation costs and other legal proceedings in Note A of Notes to Condensed Consolidated Financial Statements are incorporated herein by reference.

Item 1A. Risk Factors

Our Quarterly Report on Form 10-Q for our second fiscal quarter of 2009, and information we provide in our press releases, telephonic reports and other investor communications, including those on our corporate website, may contain forward-looking statements with respect to anticipated future events and our projected financial performance, operations and competitive position that are subject to risks and uncertainties that could cause our actual results to differ materially from those forward-looking statements and our prior expectations and projections. Refer to Managements Discussion and Analysis for a more complete identification and discussion of Forward-Looking Statements.

Our financial condition, results of operations, cash flows and the performance of our common stock may be adversely affected by a number of risk factors. Risks and uncertainties that apply to both Ross and dds DISCOUNTS include, without limitation, the following:

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We are subject to the economic and industry risks that affect large retailers operating in the United States.

Our business is exposed to the risks of a large, multi-store retailer, which must continually and efficiently obtain and distribute a supply of fresh merchandise throughout a large and growing network of stores. These risk factors include:

- An increase in the level of competitive pressures in the retail apparel or home-related merchandise industry.
- Potential changes in the level of consumer spending on or preferences for apparel or home-related merchandise, including the potential impact from uncertainty in financial and credit markets and the severity and duration of the current recession.
- Potential changes in geopolitical and/or general economic conditions that could affect the availability of product and/or the level of consumer spending.
- Unseasonable weather trends that could affect consumer demand for seasonal apparel and apparel-related products.
- A change in the availability, quantity, or quality of attractive brand-name merchandise at desirable discounts that could impact our ability to purchase product and continue to offer customers a wide assortment of merchandise at competitive prices.
- Potential disruptions in the supply chain that could impact our ability to deliver product to our stores in a timely and cost-effective manner.
- A change in the availability, quality, or cost of new store real estate locations.
- A downturn in the economy or a natural disaster in California or in another region where we have a concentration of stores or a distribution center. Our corporate headquarters, two distribution centers, and

25% of our stores are located in California.

We are subject to operating risks as we attempt to execute on our merchandising and growth strategies.

The continued success of our business depends, in part, upon our ability to increase sales at our existing store locations, to open new stores, and to operate stores on a profitable basis. Our existing strategies and store expansion programs may not result in a continuation of our anticipated revenue or profit growth. In executing our off-price retail strategies and working to improve efficiencies, expand our store network, and reduce our costs, we face a number of operational risks, including:

- Our ability to attract and retain personnel with the retail talent necessary to execute our strategies.
- Our ability to effectively operate our various supply chain, core merchandising, and other information systems.
- Our ability to improve our merchandising capabilities through the development and implementation of new processes and systems enhancements.
- Our ability to improve new store sales and profitability, especially in newer regions and markets.
- Our ability to achieve and maintain targeted levels of productivity and efficiency in our distribution centers.
- Our ability to lease or acquire acceptable new store sites with favorable demographics and long term financial returns.
- Our ability to identify and to successfully enter new geographic markets.
- Our ability to achieve planned gross margins, by effectively managing inventories, markdowns, and shrink.
- Our ability to effectively manage all operating costs of the business, the largest of which are payroll and benefit costs for store and distribution center employees.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information regarding shares of common stock we repurchased during the second quarter of 2009 is as follows:

Period	Total number of shares (or units) purchased[1]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs ($000)[2]
May (5/3/2009-5/30/2009)	424,312	$ 37.22	424,312	$ 207,000
June (5/31/2009-7/4/2009)	913,262	$ 38.83	903,483	$ 172,000
July (7/5/2009-8/1/2009)	607,577	$ 43.48	605,044	$ 146,000
Total	1,945,151	$ 39.93	1,932,839	$ 146,000

[1]We acquired 12,312 shares during the quarter ended August 1, 2009 related to income tax withholdings for restricted stock. All remaining shares were repurchased under our publicly announced stock repurchase program.

2 In January 2008 our Board of Directors approved a two-year $600 million stock repurchase program for fiscal 2008 and 2009.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders, held on May 20, 2009 (the 2009 Annual Meeting), the stockholders of the Company voted on and approved the following proposals:

Proposal 1: To elect three nominees to serve as Class II directors (Michael Balmuth, K. Gunnar Bjorklund, and Sharon D. Garrett) for a three-year term.

Proposal 2: To ratify the appointment of Deloitte & Touche LLP as the Companys independent certified public accountants for the fiscal year ending January 30, 2010.

2009 Annual Meeting Election Results

Proposal 1: Election of Directors

Director	In Favor	Withheld	Term Expires
Michael Balmuth	100,957,125	16,176,794	2012
K. Gunnar Bjorklund	100,940,175	16,193,744	2012
Sharon D. Garrett	101,621,904	15,512,015	2012

Proposal 2: Ratification of the Appointment of Deloitte & Touche LLP as Independent Certified Public Accountants for the Fiscal Year Ending January 30, 2010

For	Against	Abstain
115,389,483	1,709,534	34,901

Item 6. Exhibits

Incorporated herein by reference to the list of Exhibits contained in the Exhibit Index within this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ROSS STORES, INC.
(Registrant)

Date: September 9, 2009

By: /s/ J. Call
John G. Call
Senior Vice President, Chief Financial Officer and
Principal Accounting Officer

INDEX TO EXHIBITS

Exhibit Number	Exhibit
3.1	Amendment of Certificate of Incorporation dated May 21, 2004 and Amendment of Certificate of Incorporation dated June 5, 2002 and Corrected First Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Form 10-Q filed by Ross Stores for its quarter ended July 31, 2004.
3.2	

	Amended By-laws, dated August 25, 1994, incorporated by reference to Exhibit 3.2 to the Form 10-Q filed by Ross Stores for its quarter ended July 30, 1994.
10.10	Fourth Amendment to the Employment Agreement effective June 9, 2009 between Michael Balmuth and Ross Stores, Inc.
15	Letter re: Unaudited Interim Financial Information from Deloitte & Touche LLP dated September 8, 2009
31.1	Certification of Chief Executive Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
31.2	Certification of Chief Financial Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

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