MITSUBISHI TOKYO FINANCIAL GROUP INC
Form 6-K
September 22, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of September, 2005

MITSUBISHI TOKYO FINANCIAL GROUP, INC.

(Translation of registrant s name into English)

4 -1, Marunouchi 2-chome, Chiyoda-ku

Tokyo 100-6326, Japan

(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 __X__ Form 40-F ______

[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 __X__

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.

Date: September 22, 2005

MITSUBISHI TOKYO FINANCIAL GROUP, INC.

By: /S/ Ryutaro Kusama

Name: Ryutaro Kusama
Title: Chief Manager, General Affairs
Corporate Administration Division

The Norinchukin Bank

Mitsubishi Tokyo Financial Group, Inc.

UFJ Holdings, Inc.

Nippon Shinpan Co., Ltd.

Strategic Business and Capital Alliance in Retail Business

between The Norinchukin Bank and Mitsubishi UFJ Financial Group

Tokyo, September 22, 2005- The Norinchukin Bank (Norinchukin ; President and CEO: Hirofumi Ueno), Mitsubishi Tokyo Financial Group, Inc. (MTFG ; President and CEO: Nobuo Kuroyanagi), UFJ Holdings, Inc. (UFJ ; President and CEO: Ryosuke Tamakoshi) and Nippon Shinpan Co., Ltd. (Nippon Shinpan ; President and Representative Director: Kazuhiro Omori) have today agreed to enter into a strategic business and capital alliance concerning the retail business of JA Bank.

Subject to approval by the relevant authorities, MTFG and UFJ plan to form the Mitsubishi UFJ Financial Group (MUFG) in October 2005. In addition, Nippon Shinpan is scheduled to become a consolidated subsidiary of UFJ Bank Limited, and merge with UFJ Card Co., Ltd. to form UFJ NICOS Co., Ltd. (UFJ NICOS) in October 2005.

I. Purpose of Strategic Business and Capital Alliance

As a result of changes in the economic environment and lifestyle in Japan, the financial needs of individual customers have become increasingly diversified and sophisticated. In light of such circumstances, it has become our important mission as financial institutions to fulfill our customers financial needs in a timely and appropriate manner in various aspects, including our business operations in credit cards, card loans, various asset management products and testamentary trust services, and ensuring security in financial transactions.

Based on this understanding, Norinchukin and MUFG have agreed to enter into an extensive business alliance in the retail business of JA Bank for the purpose of making optimal use of the extensive customer base and operational network of JA Bank, and the advanced technology and product marketability of MUFG. Through such business alliance, Norinchukin will additional further expand and strengthen JA Bank s retail business base so that JA Bank may provide further attractive products to its members and customers. At the same time, MUFG will strengthen its revenue base by increasing the number of UFJ NICOS Card members, providing various retail products and know-how to JA Bank, accepting outsourcing of infrastructure from JA Bank, and so forth. Furthermore, in order to establish a strong mutual partnership and make the business alliance stable and effective, Norinchukin has decided to provide capital to MUFG and UFJ NICOS.

JA Bank aims to build an efficient financial service group with its own solid customer base and strong and close customer relationships, focusing on its members and users as core customers. At the same time, MUFG intends to further strengthen its retail business as one of its core businesses in an effort to accomplish its goal of reaching the, Global Top Five. The business and capital alliance agreed upon between Norinchukin and MUFG at this time represents the strategic policy of both parties based upon the above objectives.

II. Content of Business Alliance

1. Business Alliance

Norinchukin and MUFG plan to pursue an extensive business alliance with respect to the retail business of JA Bank, mainly in respect of the following matters:

(1) Alliance between Norinchukin and UFJ NICOS

a) Card business

1) Through infrastructure, know-how, etc. provided by UFJ NICOS, JA Bank will provide smooth and stable credit card services based upon an affiliated credit card system.

2) Norinchukin and UFJ NICOS will jointly research and develop an attractive incentive point program to be introduced by JA Bank.

3) Norinchukin and UFJ NICOS will examine together the possibility of entering into an alliance with respect to JA Bank s IC cash card business.

b) Guarantee of small amount loan

UFJ NICOS will provide sub-guarantees to small amount loans, guaranteed by Kyodo Housing Loan Co., Ltd., which is a consolidated subsidiary of Norinchukin.

(2) Business alliance between Norinchukin and MUFG s subsidiary bank (currently existing as The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Limited, respectively; prepared to be merged as of January 2006 and to become the Bank of Tokyo-Mitsubishi UFJ).

a) MUFG s subsidiary bank will provide JA Bank with infrastructure and know-how in relation to the Self Issuing Scheme of multi-functional IC cards equipped with the biometric verification system.

b) Services concerning ATMs

1) MUFG s subsidiary bank will provide infrastructure and know-how to JA Bank, upon its introduction and launch of the new ATM system, applicable for multi-functional IC cards equipped with the biometric verification system (hereinafter referred to as the New-Type ATM).

2) Norinchukin and MUFG s subsidiary bank will examine together the possibility of cross-over use of the New-Type ATMs operated by JA Bank and MUFG s subsidiary.

(3) Business alliance between Norinchukin and MUFG s subsidiary trust bank (currently existing as The Mitsubishi Trust and Banking Corporation and UFJ Trust Bank Limited, respectively; scheduled to be merged as of October 2005 to become Mitsubishi UFJ Trust and Banking Corporation).

MUFG s subsidiary trust bank will provide consulting services and administrative services with respect to the execution services of wills and inheritance arrangement services which have been provided by Nochu Trust & Banking Co. Ltd., a consolidated subsidiary of Norinchukin.

2. Capital Alliance

Norinchukin and MUFG will pursue the following capital alliance in order to create a stable and efficient business alliance between the parties:

(1) Norinchukin will invest approximately 100 billion yen in MUFG, subject to agreement on the details and method which will be further discussed and determined between the parties.

(2) Norinchukin will invest approximately 100 billion yen in UFJ NICOS, subject to agreement on the details and method which will be further discussed and determined between the parties, including the possible method where Norinchukin will purchase 50,000,000 shares of First Series Class I Stock of Nippon Shinpan held by UFJ Bank Limited at fair market value. On and after the capital alliance, there will be no change to the current policy of Nippon Shinpan to have UFJ NICOS continue to list its shares on a stock exchange.

III. Schedule

Norinchukin and MUFG will proceed with specific discussions aiming to execute a formal agreement concerning the aforementioned business alliance and capital alliance by the end of December 2005.

Contacts:

The Norinchukin Bank	Public Relations Division	03-5222-2019
Mitsubishi Tokyo Financial Group, Inc.	Corporate Communications Office	03-3240-7651
UFJ Holdings, Inc.	Public Relations Department	03-3212-5460
Nippon Shinpan Co., Ltd.	Public Relations Department	03-3817-1094

="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align=right>U.S.$000

U.S.$000

Net income reported under IFRS

494,153

389,963

320,778

U.S. GAAP adjustments

a. Purchase Accounting: Genset S.A.

-

(8,916

)

(26,829
)
b. Purchase accounting: Business combinations

-

(3,303
)

(5,662
)
c. Purchase accounting: IFRS goodwill amortization

5,092

6,358

2,957

d. Pension provisions

(779
)

(374
)

(147
)
e. Available-for-sale securities

-

6,190

(17,789
)
f. Deferred taxes

(30,437
)

903

(822
)
g. Employee Share Purchase Plan

-

3,855

389

h. Convertible bond

4,660

366

-

Deferred tax effect of U.S. GAAP adjustments

(1,665

)

3,304

7,301

Net income reported under U.S. GAAP

471,024

398,346

280,176

U.S.$

U.S.$

U.S.$

Basic earnings per bearer share reported under U.S. GAAP

30.83

25.16

17.53

Basic earnings per registered share reported under U.S. GAAP

12.33

10.06

7.01

Diluted earnings per bearer share reported under U.S. GAAP

30.78

25.12

17.51

Diluted earnings per registered share reported under U.S. GAAP

12.31

10.05

7.00

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Shareholders' equity reported under IFRS	**2,447,878**	2,880,190
U.S. GAAP adjustments		
a. Purchase accounting: Genset S.A.	**(35,745)**	(35,745)
b. Purchase accounting: Business combinations	**12,158**	12,158
c. Purchase accounting: IFRS goodwill amortization	**14,407**	9,315
d. Pension provisions	**9,990**	10,773
d. Minimum pension liability	-	(128)
e. Available-for-sale securities	-	-
f. Deferred taxes	**(32,045)**	(1,608)
g. Employee Share Purchase Plan	-	-
h. Convertible bond	**(22,478)**	(25,344)
Deferred tax effect of U.S. GAAP adjustments	**4,146**	5,862
Shareholders' equity reported under U.S. GAAP	**2,398,311**	2,855,473

Components of shareholders' equity in accordance with U.S. GAAP are as follows:

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Share capital	**254,420**	253,895
Share premium	**1,023,125**	1,002,991
Treasury shares	(987,489)	(157,642)
Retained earnings	**2,006,617**	1,634,947
Accumulated other comprehensive income		
Currency translation adjustment	**68,391**	88,883
Unrealized market value adjustment on available-for-sale securities (net of taxes of $1,693 and $1,693)	**47,431**	32,943
Unrealized market value adjustment on cash flow hedges (net of tax of $0 and $0)	(14,184)	(467)
Minimum pension liability adjustment (net of taxes of $0 and $51)	-	(77)
Shareholders' equity reported under U.S. GAAP	2,398,311	2,855,473

The changes of shareholders' equity in accordance with U.S. GAAP are as follows:

	2004	2003
	U.S.$000	U.S.$000
Balance as of January 1 reported under U.S. GAAP	**2,855,473**	2,456,683
Purchase of treasury shares	(833,148)	(42,026)
Issue of share capital	**23,960**	25,048
Issue of call options on Serono shares	-	945
Net income reported under U.S. GAAP	**471,024**	398,346
Dividend - bearer shares	(71,096)	(61,849)
Dividend - registered shares	(28,258)	(23,860)
Currency translation adjustment	(20,492)	62,497
Net unrealized market value adjustment on available-for-sale securities	**14,488**	37,636
Net unrealized market value adjustment on cash flow hedges	(13,717)	(467)
Minimum pension liability adjustment	**77**	2,520
Balance as of December 31 reported under U.S. GAAP	**2,398,311**	2,855,473

a) The accounting treatment for the 2002 acquisition of Genset S.A. under IFRS is different from the accounting treatment under U.S. GAAP. In accordance with SFAS No. 141, "Business Combinations" the fair value of acquired in-process research and development ("IPR&D") projects is considered to be a separate asset that must be expensed immediately following the acquisition, unless there is an alternative future use. Under IFRS, acquired IPR&D projects are included as a part of goodwill, unless they meet the criteria for recognition as intangible assets under IAS 38, "Intangible Assets", in which case they should be capitalized as intangible assets as part of the purchase price allocation.

b) Prior to January 1, 1995, all goodwill, being the difference between the purchase price and the aggregated fair value of tangible and intangible assets and liabilities acquired in a business combination, was written off directly to equity in accordance with IFRS existing at that time. Under U.S. GAAP, the difference between the purchase price and the fair value of net assets acquired as part of a pre-1995 business combination would have been capitalized as goodwill and, until December 31, 2001, amortized through the income statement over the estimated useful life. Effective January 1, 2002, the group adopted SFAS No. 142, "Goodwill and Other Intangible Assets". According to SFAS No. 142, all recognized goodwill that exists as of January 1, 2002, after reclassifications between intangible assets and goodwill, is no longer amortized, but rather tested at least annually for impairment. Therefore, there was no amortization charge in 2004 and 2003 under U.S. GAAP. There was no impairment loss recognized in 2004 in accordance with SFAS No. 142. In 2003, non-cash charges of $3.3 million were recorded for impairment of goodwill and divestments, which related primarily to the write-off of pre-1995 goodwill.

c) In accordance with SFAS No. 142, goodwill is no longer amortized but is only subject to impairment testing under U.S. GAAP as of January 1, 2002. The goodwill amortization that was recognized in accordance with IFRS in 2004 was $5.1 million (2003: $6.4 million) and has been added to arrive at net income reported under U.S. GAAP.

d) For purposes of U.S. GAAP, pension costs for defined benefit plans are accounted for in accordance with SFAS No. 87 ‘‘Employers’ Accounting for Pensions’’ and the disclosure is presented in accordance with SFAS No. 132 (revised 2003), “Employers’ Disclosures about Pensions and Other Post-retirement Benefits”. IAS 19 (revised 1993), in force up to December 31, 1998, required that the discount rate used in the calculation of benefit plan obligations be of an average long-term nature, whereas U.S. GAAP requires that the discount rate be based on a rate at which the obligations could be currently settled. From January 1, 1999, IFRS and U.S. GAAP accounting rules in this area are essentially the same. However, adjustments arise when reconciling from IFRS to U.S. GAAP due to the pre-1999 accounting rule differences. In addition, U.S. GAAP requires an additional minimum pension liability equal to the excess of the accumulated benefit obligation over the fair value of the plan assets to be recognized as an intangible asset, up to the amount of unrecognized prior service costs. Any amount exceeding the unrecognized prior service costs is reported in other comprehensive income net of tax.

e) For U.S. GAAP purposes, and in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”, marketable securities with readily determinable fair values are classified as available-for-sale with any unrealized gain or loss resulting from changes in their fair values recorded as a separate component of shareholders’ equity. The group considers impairment under U.S. GAAP to be other than temporary if the impairment exceeds 25% over a continual period of six months, and there is no indication of a significant increase in fair value in the short-term. Such unrealized losses are expensed in the income statement. This definition of impairment under U.S. GAAP differs from the definition of impairment under IFRS and, therefore, the amount of unrealized gains and losses recognized under the two standards will be different. During 2003, the group recognized a realized gain under U.S. GAAP upon the disposal of an investment of $2.2 million, while under IFRS the disposal resulted in a realized loss of $4.0 million.

f) Under IAS 12 (revised 2000), “Income Taxes”, and U.S. GAAP, unrealized profits resulting from intercompany transactions are eliminated from the carrying amount of assets, such as inventory. In accordance with IAS 12 and effective from January 1, 1998, the group changed its accounting policy relating to the calculation of the deferred tax effect on the elimination of unrealized intercompany profits. Prior to this date, the tax effect was calculated with reference to the local tax rate of the selling or manufacturing company where the intercompany profit was generated. Since January 1, 1998, the group calculates the tax effect with reference to the local tax rate of the company that holds the inventory (the buyer) at year-end. However, U.S. GAAP requires the tax effect to be calculated with reference to the local tax rate in the seller or manufacturer’s jurisdiction.

g) For U.S. GAAP purposes, the Employee Share Purchase Plan (the “ESPP”) as described in note 28 has been accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees”, which is the same as Serono’s current policy in accordance with IAS 19, “Employee Benefits”. The accumulated compensation cost associated with the matching share under U.S. GAAP as of December 31, 2002 has been added back as income in the U.S. GAAP reconciliation.

h) In accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” and SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”, all proceeds received from the issuance of the convertible bond should be allocated to long-term debt. Under IFRS, the proceeds of the bond were bifurcated and recognized as separate liability and equity components. The amount of financial expense recognized under IFRS exceeds the amount of financial expense recognized under U.S. GAAP due to the differences in the amounts initially recognized under IFRS and U.S. GAAP. In 2004, $4.7 million (2003: $0.4 million) has been added back to arrive at net income under U.S. GAAP. The equity component initially recognized under IFRS of $24.6 million was reported as a reserve within shareholders’ equity. However, under U.S. GAAP, this reserve is removed from shareholders’ equity and recorded as long-term debt on the consolidated balance sheet.

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Additional U.S. GAAP Disclosures

A. Purchase accounting: Genset S.A.

On September 12, 2002, the group acquired 92.47% of the share capital of Genset S.A., a genomics-based biotechnology company, in a transaction accounted for as a business combination in accordance with SFAS 141, "Business Combinations". During 2003, the group increased its ownership to 100% by acquiring the remaining outstanding shares of Genset S.A. The final purchase price allocation under U.S. GAAP resulted in acquired IPR&D of $35.7 million and goodwill of $47.5 million. The components of shareholders' equity and net income adjustments related to the U.S. GAAP purchase accounting adjustments are as follows:

	As of December 31, 2004	
	Shareholders' equity	**Net income**
	U.S.$000	**U.S.$000**
IPR&D	**(35,745)**	-
IFRS Goodwill amortization	**10,960**	**4,104**
Total	**(24,785)**	**4,104**

	As of December 31, 2003	
	Shareholders' equity	Net income
	U.S.$000	U.S.$000
IPR&D	(35,745)	(8,916)
IFRS Goodwill amortization	6,856	5,184
Total	(28,889)	(3,732)

B. Purchase accounting: Goodwill and other intangibles

Changes in the carrying amount of goodwill under U.S. GAAP for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003
	U.S.$000	U.S.$000
As of January 1	**74,945**	115,380
Goodwill acquired	**332**	(37,208)
Impairment losses	**-**	(3,303)
Currency adjustments	**19**	76
As of December 31	**75,296**	74,945

All goodwill components were tested for impairment during 2004 and 2003. The fair value of the business was determined using the expected present value of future cash flows.

The following table sets out, in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related information", the carrying amount of goodwill under U.S. GAAP by the geographical segment in which the reporting unit is located:

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Europe	**52,914**	52,563
Middle East, Africa and Eastern Europe	**22,382**	22,382
Total	**75,296**	74,945

In accordance with SFAS 142, “Goodwill and Other Intangible Assets”, intangible assets with indefinite lives and goodwill are no longer amortized, but tested annually for impairment. Goodwill is the only intangible asset with an indefinite life.

The remaining weighted average amortization period of intangible assets with definite lives as of December 31, 2004 was 5.8 years (2003: 6.9 years). The aggregated amortization expense for intangible assets with definite lives was $33.7 million and $25.1 million for the year ended December 31, 2004 and 2003, respectively. The estimated amortization expense for intangible assets for the next five years is as follows:

	U.S. $000
2005	**42,238**
2006	**41,067**
2007	**39,429**
2008	**23,597**
2009	**23,597**

C. Pension provisions

The following tables provide a reconciliation of the changes in the benefit obligation and fair value of the plan assets and a statement of the funded status for the group’s defined benefit pension plans as of December 31, 2004 and 2003, respectively:

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Benefit obligation		
As of January 1	**168,544**	185,519
Service cost	**24,630**	21,077
Interest cost	**7,913**	6,014
Actuarial gain	**(3,716)**	(52,638)
Benefit payments	**(6,925)**	(8,839)
Settlements	**-**	(451)
Currency adjustments	**14,644**	17,862
As of December 31	**205,090**	168,544
Plan assets at fair value		
As of January 1	**145,687**	108,288
Actual return on plan assets	**11,240**	12,934
Employer contributions	**15,198**	12,825
Employee contributions	**7,101**	6,117
Benefit payments	**(6,925)**	(8,839)
Currency adjustments	**14,473**	14,362
As of December 31	**186,774**	145,687
Funded status		
As of December 31	**(18,316)**	(22,857)
Unrecognized actuarial gain	**(31,499)**	(21,637)
Minimum pension liability	**-**	(128)
Net amount recognized	**(49,815)**	(44,622)

Accrued benefit liability	**(49,815)**	(44,494)
Accumulated other Comprehensive income, gross	**-**	(128)
Net amount recognized	**(49,815)**	(44,622)

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The accumulated benefit obligation for the group's defined benefit pension plans was $195.3 million as of December 31, 2004 ($159.0 million as of December 31, 2003).

	Year ended December 31		
	2004	2003	2002
	U.S.$000	U.S.$000	U.S.$000
Current service cost	**17,529**	14,960	13,995
Interest cost	**7,913**	6,014	6,206
Expected return on plan assets	**(8,609)**	(6,762)	(5,960)
Amortization of transition obligation	**-**	374	147
Amortization of unrecognized actuarial (gain)/loss	**(674)**	(1,342)	113
Net periodic benefit cost	**16,159**	13,244	14,501
(Decrease)/increase in minimum pension liability included in other comprehensive income, gross	**(128)**	(2,758)	2,886

Unrecognized actuarial gain and loss in excess of 10% of the greater of the benefit obligation or the fair value of plan assets is amortized over the average remaining service period of active participants. The principal weighted average actuarial assumptions used for accounting purposes are as follows:

	Net period benefit costs		**Benefit obligation**	
	2004	2003	**2004**	2003
	%	%	%	%
Discount rate	**-**	-	**4.03**	4.24
Expected return on plan assets	**5.19**	5.65	**-**	-
Future salary increases	**2.69**	2.67	**2.69**	2.67
Future pension increases	**-**	-	**3.76**	4.03

The expected return on plan assets was determined based on historical benchmarks for returns in the plan asset portfolio as a whole and internal capital market forecasts for each plan asset category based on the targeted asset allocation. Actuarial dates to determine pension benefit measurements for the group's defined benefit pension plans fell within three months from the year ended December 31, 2004.

SFAS No. 132 (revised 2003), "Employer's Disclosures about Pensions and Other Post-Retirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132", requires the following additional information:

The weighted average pension plan asset allocation for the group's defined benefit pension plans as of December 31, 2004 and 2003, by asset category, are as follows:

	As of December 31	
	2004	2003
	%	%
Equity securities	**29**	27
Debt securities	**50**	53
Real estate	**6**	7

Other	**15**	13
Total	**100**	100

Investment policies and strategies are determined separately for each of the defined benefit pension plans. The group's main defined benefit pension plan, the Swiss plan, contributes approximately 85% of the total benefit obligation in 2004. For the Swiss defined benefit pension plan, the Foundation Board sets the investment policy, including the relevant investment requirements and investment and risk limits. The objective of the investment policy is to maximize return while limiting risks through a balanced portfolio of investments. Within each plan asset category, a diversified mix of individual equity and debt securities, real estate and investments in funds is selected. Equity securities are targeted at a maximum of 35% of the portfolio. Real estate investments are limited to domestic real estate at a maximum of 50% of the portfolio. Direct investments in Serono shares or derivatives on Serono shares are not allowed.

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The expected employer contributions to the group's defined benefit pension plan amount to $15.4 million in 2005. The following benefit payments, which represent future service are expected to be paid:

	U.S.$000
2005	6,834
2006	7,173
2007	7,448
2008	7,988
Thereafter	62,201

The group's U.S. subsidiary, Serono Holding, Inc., maintains a savings plan for eligible employees. This 401(k) plan is designed to supplement the existing pension retirement program of eligible employees and to assist them in strengthening their financial security by providing an incentive to save and invest regularly. The plan provides for a matching contribution by Serono Holding, Inc., which amounted to approximately $1.4 million, $1.2 million and $1.2 million for the three years ended December 31, 2004, 2003 and 2002, respectively.

D. Financial assets

The U.S. GAAP carrying values of financial assets equal the IFRS carrying values. The components of short-term and long-term financial assets are provided in note 17. Proceeds from the sale of available-for-sale securities in 2004 were $654.6 million (2003: $8.1 million). Gross realized gains in 2004 were $1.8 million (2003: $2.1 million). Gross realized losses in 2004 were $1.4 million (2003: $0.2 million). The net unrealized gain from available-for-sale securities included as a separate component of shareholders' equity under U.S. GAAP was $12.6 million as of December 31, 2004 (2003: net unrealized gain of $25.9 million).

The maturities of the available-for-sale debt securities as of December 31, 2004 and 2003, respectively, are as follows:

	2004	2003
	U.S.$000	U.S.$000
2005	**784,714**	294,002
2006	**560,703**	218,957
2007	**217,779**	363,707
2008	**-**	241,332
Total	**1,563,196**	1,117,998

E. Derivative financial instruments

There were no gains or losses recognized in 2004 on options settled in Serono bearer shares that require a net cash settlement (2003: loss of $1.7 million).

F. Non-derivative financial instruments

Non-derivative financial assets consist of cash and cash equivalents, short-term and long-term investments and unconsolidated investments. Non-derivative liabilities consist of bank advances and short-term and long-term financial debts, including the convertible bond. The convertible bond is recognized in the consolidated balance sheets as of December 31, 2004 and 2003 for U.S. GAAP purposes as follows:

	2004	2003
	U.S.$000	U.S.$000
Face value of convertible bond issued	**465,261**	465,261
Transaction costs	**(6,611)**	(6,611)
Liability on initial recognition	**458,650**	458,650
Interest expense	**9,124**	729
Cumulative translation adjustment	**62,494**	20,931
Liability as of December 31	**530,268**	480,310

The U.S. GAAP carrying values are equivalent to the IFRS carrying values for all non-derivative financial assets and liabilities. The carrying amount of cash and cash equivalents, short-term investments and bank advances approximates their estimated fair values, due to the short-term nature of these instruments. The fair values for the marketable securities are estimated based on listed market prices or broker or dealer price quotes. The fair value of long-term financial debt is estimated based on the current quoted market rates available for debt with similar terms and maturities. The fair value of the convertible bond is determined based on quoted market price as of December 31, 2004 and 2003. The estimated fair values and maturities of the long-term financial debts are provided in note 19 and 20.

G. Current and deferred taxes

Deferred tax assets and liabilities under U.S. GAAP consist of the following:

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Deferred tax assets		
Tax losses carried forward	**47,764**	60,800
Various research and development tax credits carried forward	**30,448**	32,943
Depreciation and amortization	**37,045**	49,797
Inventories	**63,617**	59,966
Accrued expenses	**20,090**	21,234
Return provisions	**11,487**	12,353
Other	**6,990**	(4,327)
Total deferred tax assets	**217,441**	232,766
Less valuation allowance	**(46,873)**	(58,819)
Total net deferred tax assets	**170,568**	173,947

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Deferred tax liabilities		
Depreciation and amortization	**4,723**	8,232

Inventories	**29,745**	13,915
Other	**(10,226)**	(6,228)
Total deferred tax liabilities	**24,242**	15,919
Net deferred taxes	**146,326**	158,028

Other deferred tax assets and liabilities are stated net of any deferred tax assets and liabilities that have been offset against each other and the amount may therefore become negative. The potential for offsetting deferred tax assets and liabilities is limited to those arising within the same tax jurisdiction.

Valuation allowances have been established for certain deferred tax assets related primarily to net operating losses carried forward and portions of other deferred tax assets for which the group determined that it was more likely than not that these benefits would not be realized. During 2004, the valuation allowance decreased by $11.9 million (2003: decrease of $57.0 million). The decrease in the valuation allowance in 2003 is mainly related to the recognition of a deferred tax asset that arises from the utilization of the net operating losses carried forward for Genset S.A. A reversal of the valuation allowance could occur when circumstances result in the realization of deferred tax assets becoming probable, which would result in a decrease in the group’s effective tax rate.

Deferred tax assets and liabilities under U.S. GAAP, broken out into current and non-current, are as follows:

	As of December 31	
	2004	2003
	U.S.$000	U.S.$000
Current deferred tax assets	**101,199**	99,258
Non-current deferred tax assets	**69,369**	74,689
Total net deferred tax assets	**170,568**	173,947
Current deferred tax liabilities	**1,829**	2,133
Non-current deferred tax liabilities	**22,413**	13,786
Total deferred tax liabilities	**24,242**	15,919

H. Pro forma earnings per share

As permitted by Statement of SFAS No. 123, ‘‘Accounting for Stock Based Compensation’’ and its amendment in SFAS No. 148, “Accounting for Stock Based Compensation - Transition and Disclosure”, the group applies APB No. 25, ‘‘Accounting for Stock Issued to Employees’’, and related interpretations in accounting for the stock option plan for U.S. GAAP purposes. Had the group accounted for stock options in accordance with SFAS 123, net income under U.S. GAAP and earnings per bearer and registered share under U.S. GAAP would have decreased to the pro forma amounts indicated as follows:

	Year ended December 31		
	2004	2003	2002
	U.S.$000	U.S.$000	U.S.$000
Net income as reported	**471,024**	398,346	280,176
Compensation expense recognized in net income	**1,219**	1,375	1,045
Compensation expense that would have been included in the determination of net income if SFAS No. 123 had been adopted	**(22,028)**	(18,982)	(14,385)
Pro forma net income	**450,215**	380,739	266,836
	U.S.$	U.S.$	U.S.$
As reported			
Basic earnings per bearer share	**30.83**	25.16	17.53
Basic earnings per registered share	**12.33**	10.06	7.01
Diluted earnings per bearer share	**30.78**	25.12	17.51
Diluted earnings per registered share	**12.31**	10.05	7.00
Pro forma			
Basic earnings per bearer share	**29.47**	24.05	16.69
Basic earnings per registered share	**11.79**	9.62	6.68
Diluted earnings per bearer share	**29.42**	24.01	16.67
Diluted earnings per registered share	**11.77**	9.61	6.67

The average fair values of stock options granted to employees in 2004, 2003 and 2002 were $210, $142 and $317, respectively. The fair value of stock options granted to directors in 2004 and 2003 was $195 and $170, respectively. There were no stock options granted to directors in 2002. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing method with the following weighted average assumptions used for grants for the years ended December 31, 2004, 2003 and 2002, respectively:

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	2004	2003	2002
	%	%	%
Dividend gross rate	**1.01**	1.07	0.47
Expected stock price volatility	**38.2**	34.6	33.6
Risk-free interest rate	**3.5**	3.5	3.5
Expected lives, in years	**7.8**	7.9	7.5

I. Advertising costs

The group expenses production costs of print and display advertisements as of the first day the advertisement takes place. Advertising expenses included in selling and marketing expenses were $100.4 million, $77.0 million and $77.2 million for the three years ended December 31, 2004, 2003 and 2002, respectively.

J. Shipping and handling costs

The group includes shipping and handling costs incurred in connection with the distribution of therapeutic products in the selling, general and administrative line on the income statement. These amounts were $31.3 million, $25.7 million and $18.6 million for the three years ended December 31, 2004, 2003 and 2002, respectively.

K. Shares issued and outstanding

Regulation S-X, Rule 5-02.30, would require the number of shares issued or outstanding, for each class of shares, to be disclosed on the face of the balance sheet. The group discloses this information in note 24 to the consolidated financial statements.

L. Consolidated Statements of Cash Flows

Consolidated statements of cash flows of the group are prepared in accordance with IAS 7, "Cash Flow Statements". As permitted by the U.S. Securities and Exchange Commission in Regulation S-X, no reconciliation to U.S. GAAP has been performed.

M. Comprehensive income

SFAS No. 130, ''Reporting Comprehensive Income'', established standards for the reporting and display of comprehensive income and its components. Comprehensive income includes net income and all changes in shareholders' equity during a period that arises from non-owner sources, such as currency translation items, unrealized gains and losses on available-for-sale securities, cash flow hedges and minimum pension liabilities. The additional disclosures required under U.S. GAAP are as follows:

	Year ended December 31		
	2004	2003	2002
	U.S.$000	U.S.$000	U.S.$000
Net income reported under U.S. GAAP	**471,024**	398,346	280,176
Other comprehensive income			
Currency translation adjustment	**(20,492)**	62,497	108,668
Unrealized market value adjustment on available-for-sale securities	**14,488**	37,636	(1,884)

(net of taxes of $0, $0 and $2,147, respectively)			
Unrealized market value adjustment on cash flow hedges (net of taxes of $0 and $0, respectively)	**(13,717)**	(467)	-
Minimum pension liability adjustment (net of taxes of $51, $238 and $289, respectively)	**77**	2,520	(2,597)
Comprehensive income reported under U.S. GAAP	**451,380**	500,532	384,363

36. Effect of new accounting pronouncements

IFRS

In December 2003, the International Accounting Standards Board (IASB) released revisions to the following standards: IAS 1, “Presentation of Financial Statements”; IAS 2, “Inventories”; IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”; IAS 10, “Events after Balance Sheet Date”; IAS 16, “Tangible fixed assets”; IAS 17, “Leases”; IAS 21, “The Effects of Changes in Foreign Exchange Rates”; IAS 24, “Related Parties Disclosures”; IAS 27, “Consolidated and Separate Financial Statements”; IAS 28, “Investment in Associates”; IAS 31, “Interests in Joint Ventures”; IAS 32, “Financial Instruments: Disclosure and Presentation”; IAS 33, “Earnings per Share”; IAS 39, “Financial Instruments: Recognition and Measurement”; and IAS 40, “Investment Property”. The revised standards should be applied for financial statements covering periods beginning on or after January 1, 2005. IAS 1, “Presentation of Financial Statements”, requires that minority interests are included in shareholders’ equity in the consolidated balance sheet and they are no longer deducted in arriving at net income in the consolidated income statement. The adoption of IAS 1 will increase shareholders’ equity as of January 1, 2005 by $3.3 million. Basic and diluted earnings per share will continue to be calculated based on the net income attributable to shareholders of Serono S.A. only. The other amendments as described above are not expected to have a material impact on the group’s consolidated financial statements.

In February 2004, the IASB published IFRS 2, “Share-Based Payments”, which requires fair-value recognition of equity-based compensation in the group’s consolidated financial statements. IFRS 2 will become effective for annual periods beginning on or after January 1, 2005 and will require retrospective application for all equity-based compensation instruments granted after November 7, 2002 and not vested as of January 1, 2005. As permitted by IFRS 2, the group will restate in 2005 prior year audited historical consolidated financial statements to reflect the expense of stock options granted since the effective date of IFRS 2. Management estimates that the adoption of IFRS 2 will result in:

	2004	2003
(Estimates) (Earnings per share in U.S.$)	U.S.$000	U.S.$000
Increase in share capital and share premium	12,936	2,611
Decrease in retained earnings	12,936	2,611
Increase in compensation expense, net of tax	10,325	2,611
Decrease in basic earnings per bearer share	0.68	0.16
Decrease in basic earnings per registered share	0.27	0.07
Decrease in diluted earnings per bearer share	0.67	0.16
Decrease in diluted earnings per registered share	0.27	0.07

In March 2004, the IASB published IFRS 3, “Business Combinations”; IFRS 4, “Insurance Contracts”; IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations”; and revised versions of IAS 36, “Impairment of Assets”; IAS 38, “Intangible Assets”; and further amendments to IAS 39. These standards will become effective for annual periods beginning on or after January 1, 2005. IFRS 3 became effective prospectively for all business combinations that take place after March 31, 2004. As there were no acquisitions during 2004, the adoption of IFRS 3 does not impact the amounts presented in the 2004 consolidated financial statements. The adoption of IFRS 3 will cease amortization of goodwill as of January 1, 2005 and will require goodwill to be tested at least annually for impairment, which is identical to the current accounting policy for goodwill under U.S. GAAP. For business combinations with a date of acquisition after March 31, 2004, the adoption of IAS 38 will require that the purchase price be allocated to any IPR&D separately from goodwill. In addition, acquired intangible assets as part of in-licensing agreements after January 1, 2005 will be capitalized even if they have not achieved technical feasibility, which is usually signified by regulatory approval. The adoption of IFRS 4 and IFRS 5 is not expected to have a material impact on the group's consolidated financial statements.

U.S. GAAP

In December 2003, the Financial Accounting Standards Board ("FASB") issued a revised FASB Interpretation No. 46 (FIN 46R), "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 (ARB 51)". The FASB published the revision to clarify and amend some of the original provisions of FIN 46, which was issued in January 2003, and to exempt certain entities from its requirements. The provisions of FIN 46R became effective as of March 31, 2004. The group completed its evaluation of the provisions of FIN 46R on the equity investments it holds, none of which would be considered as variable interest entities. Accordingly, the adoption of this standard did not have a material impact on the reconciliation.

In December 2003, the Securities and Exchange Commission (SEC) issued SAB 104, "Revenue Recognition", which supersedes SAB 101, "Revenue Recognition in Financial Statements". SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21. Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the FAQ) issued with SAB 101 that had been codified in SEC Topic 13, "Revenue Recognition". Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EIFT 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 in 2004 did not have a material impact on the reconciliation.

In February 2004, EITF 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" was issued. EITF 03-01 stipulates disclosure requirements for investments with unrealized losses that have not been recognized as other-than-temporary impairments. The provisions of EITF 03-01 became effective for annual periods beginning after June 15, 2004. On September 30, 2004, the FASB issued FSP 03-01-1, "Effective Date of Paragraphs 10-20 of EITF 03-01", delaying the effective date for the recognition and measurement guidance in EITF 03-01. The disclosure requirements in EITF 03-01 remain effective. The group complied with the disclosure provisions of EITF 03-01.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4". This statement requires that certain abnormal costs associated with the manufacturing, freight, and handling costs associated with inventory be charged to current operations in the period in which they are incurred and will be effective for annual periods beginning after June 15, 2005. The group is currently evaluating the impact of this standard on the reconciliation.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - Amendment of APB No. 29". This standard eliminates the exception for exchanges of similar productive assets at fair value as stated in APB No. 29 and replaces it with a general exception for exchange transactions that do not have commercial substance, defined as transactions that are not expected to result in significant changes in the cash flows of the reporting entity. This statement is effective for exchanges of nonmonetary assets occurring after June 15, 2005 and is not expected to have a material impact on the reconciliation.

In December 2004, the FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment". SFAS No. 123R is a revision of SFAS No. 123, "Accounting for Stock Based Compensation" and supersedes APB No. 25, "Accounting for Stock Issued to Employees". This standard eliminates the ability to account for share-based compensation transactions using APB No. 25 and requires such transactions to be accounted for using a fair-value-based valuation method and the resulting cost to be recognized in the financial statements. This standard is effective for awards that are granted, modified or settled in cash for annual periods beginning after June 15, 2005 and the accounting policy would be essentially the same as IFRS 2, "Share-Based Payment". The group is currently evaluating the two methods of adoption allowed by SFAS No. 123R, the modified-prospective transition method and the modified-retrospective transition method and their impact on the reconciliation and disclosure.

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37. Subsequent events

On January 25, 2005, the consolidated financial statements were approved by the Board of Directors for presentation to the Annual General Meeting of Shareholders. The proposed dividends are detailed in note 26.

38. Principal currency translation rate

Year-end exchange rates used for the consolidated balance sheets.

	2004	2003	2002
	U.S.$	U.S.$	U.S.$
1 CHF	**1.1325**	1.2334	1.3871
1 EURO	**0.7335**	0.7915	0.9557

Average exchange rates used for the consolidated income statements and cash flow statements.

	2004	2003	2002
	U.S.$	U.S.$	U.S.$
1 CHF	**1.1353**	1.2896	1.4852
1 EURO	**0.7520**	0.8331	1.0075

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Of Serono SA, Coinsins (Vaud), Switzerland

Our audits of the consolidated financial statements referred to in our report dated January 31, 2005, appearing on page F-2 of this Form 20-F, also included an audit of the financial statement schedule listed in Item 18 of this Form 20-F. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers S.A.

/s/ M. Aked /s/ H-J. Hofer

M. Aked H-J. Hofer
Geneva, January 31, 2005

Schedule II-Valuation and qualifiying accounts

For the years ended December 31, 2004, 2003 and 2002	Balance at the beginning of the period US$000	Additions US$000	Deductions [1] US$000	Balance at the end of the period US$000
Year ended December 31, 2004				
Provisions for doubtful accounts	6,510	1,335	(1,708)	6,137
Provision for inventories	20,756	14,508	(8,701)	26,563
Allowance for deferred taxes	58,819	29,293	(41,239)	46,873
Total	86,085	45,136	(51,648)	79,573
Year ended December 31, 2003				
Provisions for doubtful accounts	11,193	1,080	(5,763)	6,510
Provision for inventories	14,531	8,379	(2,154)	20,756
Allowance for deferred taxes	115,854	26,749	(83,784)	58,819
Total	141,578	36,208	(91,701)	86,085
Year ended December 31, 2002				
Provisions for doubtful accounts	12,702	3,359	(4,868)	11,193
Provision for inventories	17,847	4,450	(7,766)	14,531
Allowance for deferred taxes	35,305	98,888	(18,339)	115,854
Total	65,854	106,697	(30,973)	141,578

(1) Represents amounts used for the purposes for which the accounts were created and reversal of amounts no longer required.

EXHIBIT INDEX

Exhibit Number	Description
1.1	Articles of Association, dated March 9, 2005
2.1	Deposit Agreement among the Registrant, The Bank of New York, as Depositary, and all Owners and Beneficial Owners from time to time of ADRs issued thereunder, including the form of ADRs (incorporated by reference to Exhibit 4.6 to Registrant's Registration Statement on Form S-8 (Registration No. 333-12480), as filed with the Commission on September 6, 2000)
2.2	Form of Certificate for One Bearer Share (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to Registrant's Registration Statement on Form F-1 (Registration No. 333-12192), as filed with the Commission on July 10, 2000)
2.3	Form of Certificate for Ten Bearer Shares (incorporated by reference to Exhibit 4.3 to Amendment No. 1 to Registrant's Registration Statement on Form F-1 (Registration No. 333-12192), as filed with the Commission on July 10, 2000)
2.4	Form of Certificate for One Hundred Bearer Shares (incorporated by reference to Exhibit 4.4 to Amendment No. 1 to Registrant's Registration Statement on Form F-1 (Registration No. 333-12192), as filed with the Commission on July 10, 2000)
2.5	Form of Certificate for One Thousand Bearer Shares (incorporated by reference to Exhibit 4.5 to Amendment No. 1 to Registrant's Registration Statement on Form F-1 (Registration No. 333-12192), as filed with the Commission on July 10, 2000)
2.6	Form of American Depositary Receipt (included in Exhibit 2.1 hereto)
2.7	Paying and Conversion Agency Agreement, dated November 17, 2003, by and among Ares International Finance 92 Ltd (the "Issuer"), Serono S.A. and UBS AG relating to the issuance by the Issuer of CHF 600,000,000 aggregate principal amount of 0.50% Convertible Unsubordinated Bonds due 2008 (the "Convertible Bonds") (incorporated by reference to Exhibit 2.7 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2003)
2.8	Guarantee, dated as of November 26, 2003, of Serono S.A. in respect of the Convertible Bonds (incorporated by reference to Exhibit 2.8 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2003)
8.1	List of Subsidiaries of the Registrant
11.1	Code of Ethics
12.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)
12.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)
13.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(b)

13.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(b)
15.1	Consent of PricewaterhouseCoopers S.A.