PBF Energy Inc.
Form S-1/A
June 03, 2013
Table of Contents

As filed with the Securities and Exchange Commission on June 3, 2013

Registration No. 333-188845

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PBF ENERGY INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	2911	45-3763855
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

One Sylvan Way, Second Floor

Parsippany, New Jersey 07054

Telephone: (973) 455-7500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Jeffrey Dill, Esq.

PBF Energy Inc.

Senior Vice President, General Counsel

One Sylvan Way, Second Floor

Parsippany, New Jersey 07054

Telephone: (973) 455-7500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Todd E. Lenson, Esq.
Jordan M. Rosenbaum, Esq.
Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 10038
Telephone: (212) 806-5400

William M. Hartnett, Esq.
Douglas S. Horowitz, Esq.
Cahill Gordon & Reindel LLP
80 Pine Street
New York, New York 10005
Telephone: (212) 701-3000

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨	Accelerated Filer ¨	Non-accelerated Filer þ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offering is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 3, 2013

Prospectus

15,950,000 Shares

Class A Common Stock

The selling stockholders named in this prospectus are offering 15,950,000 shares of Class A common stock of PBF Energy Inc.

Our Class A common stock is listed on the New York Stock Exchange under the symbol PBF . The last reported sale price of our Class A common stock on the New York Stock Exchange on May 31, 2013 was $29.17 per share.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 17.

Price $ Per Share

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholders
Per Share	$	$	$
Total	$	$	$

The selling stockholders have granted the underwriters a 30-day option to purchase up to 2,392,500 additional shares of our Class A common stock on the same terms as set forth above. The selling stockholders will receive all of the net proceeds from this offering and bear all commissions and discounts, if any, attributable to the sales of shares of our Class A common stock. We will not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders, but we have agreed to bear certain expenses related to the offering. See the section of this prospectus entitled Use of Proceeds and Underwriting.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities nor passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2013.

Citigroup Morgan Stanley

Credit Suisse Deutsche Bank Securities

UBS Investment Bank Barclays Wells Fargo Securities

Scotiabank / Howard Weil Simmons & Company International

Tudor, Pickering, Holt & Co. Natixis

, 2013

Table of Contents

TABLE OF CONTENTS

	Page
Industry and Market Data	ii
Prospectus Summary	1
Risk Factors	17
Forward-Looking Statements	24
Use of Proceeds	26
Price Range of Common Stock and Dividend Policy	26
Capitalization	29
Unaudited Pro Forma Consolidated Financial Statements	31
Certain Relationships and Related Transactions	42
	Page
Selling Stockholders	52
Description of Capital Stock	54
Shares Eligible for Future Sale	59
Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders	61
Underwriting	65
Legal Matters	73
Experts	73
Where You Can Find More Information	73
Incorporation of Certain Documents by Reference	74

Neither we, the selling stockholders, nor the underwriters (or any of our or their respective affiliates) have authorized anyone to provide any information other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. Neither we, the selling stockholders nor the underwriters (or any of our or their respective affiliates) take any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We and the selling stockholders are not and the underwriters (or any of their respective affiliates) are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is only accurate as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so.

For investors outside the United States: we have not and the underwriters have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of Class A common stock and the distribution of this prospectus outside the United States.

Unless otherwise indicated or the context otherwise requires, all financial data presented or incorporated by reference in this prospectus reflects the consolidated business and operations of PBF Energy Inc. and its consolidated subsidiaries, and has been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP.

This prospectus incorporates by reference important information. You should read this prospectus and the information incorporated by reference before deciding to invest in shares of our Class A common stock. You may obtain this information without charge by following the instructions under Where You Can Find More Information appearing elsewhere in this prospectus.

Table of Contents

INDUSTRY AND MARKET DATA

This prospectus and the documents incorporated by reference herein include industry data and forecasts that we obtained from industry publications and surveys, public filings and internal company sources. Statements as to our ranking, market position and market estimates are based on independent industry publications, government publications, third party forecasts and management s good faith estimates and assumptions about our markets and our internal research. Although industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, we have not independently verified such third party information. While we are not aware of any misstatements regarding our market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the headings Risk Factors and Forward-Looking Statements in this prospectus and the documents incorporated by reference herein.

This prospectus and the documents incorporated by reference herein contains certain information regarding refinery complexity as measured by the Nelson Complexity Index, which is calculated on an annual basis by data from the Oil and Gas Journal. Certain data presented in this prospectus and the documents incorporated by reference herein is from the Oil and Gas Journal Report dated December 5, 2011.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information about our business and this offering and may not contain all of the information that may be important to you. You should read this entire prospectus and the information incorporated by reference into this prospectus carefully, including the information set forth under the section entitled Risk Factors in this prospectus and Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 (our 2012 Form 10-K), as well as our financial statements and related notes and the other documents incorporated by reference herein, before making an investment decision. This summary contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from future results contemplated in the forward-looking statements as a result of factors such as those set forth in Risk Factors and Forward-Looking Statements in this prospectus and the documents incorporated by reference herein.

In this prospectus, unless the context otherwise requires, references to the Company, we, our, us or PBF refer to PBF Energy Inc., or PBF Energy, and, in each case, unless the context otherwise requires, its consolidated subsidiaries, including PBF Energy Company LLC, or PBF LLC, PBF Holding Company LLC, or PBF Holding, PBF Investments LLC, or PBF Investments, Toledo Refining Company LLC, or Toledo Refining, Paulsboro Refining Company LLC, or Paulsboro Refining, and Delaware City Refining Company LLC, or Delaware City Refining.

Our Company

We are one of the largest independent petroleum refiners and suppliers of unbranded transportation fuels, heating oil, petrochemical feedstocks, lubricants and other petroleum products in the United States. We sell our products throughout the Northeast and Midwest of the United States, as well as in other regions of the United States and Canada, and are able to ship products to other international destinations. We were formed in 2008 to pursue acquisitions of crude oil refineries and downstream assets in North America. We currently own and operate three domestic oil refineries and related assets, which we acquired in 2010 and 2011. Our refineries have a combined processing capacity, known as throughput, of approximately 540,000 barrels per day (bpd), and a weighted average Nelson Complexity Index of 11.3.

Our three refineries are located in Toledo, Ohio, Delaware City, Delaware and Paulsboro, New Jersey. Our Mid-Continent refinery at Toledo processes light, sweet crude, has a throughput capacity of 170,000 bpd and a Nelson Complexity Index of 9.2. The majority of Toledo s WTI-based crude is delivered via pipelines that originate in both Canada and the United States. Since our acquisition of Toledo in 2011, we have added additional truck and rail crude unloading capabilities that provide feedstock sourcing flexibility for the refinery and enables Toledo to run a more cost-advantaged crude slate. Our East Coast refineries at Delaware City and Paulsboro have a combined refining capacity of 370,000 bpd and Nelson Complexity Indices of 11.3 and 13.2, respectively. These high-conversion refineries process primarily medium and heavy, sour crudes and have historically received the bulk of their feedstock via ships and barges on the Delaware River. In May 2012, we commenced crude shipments via rail into a newly developed crude rail unloading facility at our Delaware City refinery. Currently, crude delivered to this facility is consumed at our Delaware City refinery. In the future we plan to transport some of the crude delivered by rail from Delaware City via barge to our Paulsboro refinery. The Delaware City rail unloading facility allows our East Coast refineries to source WTI-based crudes from Western Canada and the Mid-Continent, which provides significant cost advantages versus traditional Brent-based international crudes.

PBF Energy is a holding company that manages its consolidated subsidiary, PBF LLC, and its subsidiaries. Our sole asset is a controlling equity interest in PBF LLC. As of May 15, 2013, this interest represented

1

approximately 24.4% of the outstanding economic interests in PBF LLC, and our economic interest will increase as a result of this offering. See Our Corporate Structure and Initial Public Offering and The Offering below.

Industry Overview and Market Outlook

The United States has historically been the largest consumer of petroleum-based products in the world. According to the U.S. Energy Information Administration s, or EIA s, 2012 Refinery Capacity Report, there were 134 operating oil refineries in the United States in January 2012, with a total refining capacity of approximately 16.7 million bpd and a weighted-average Nelson Complexity Index of approximately 10.9. Of the total operating refining capacity in the United States, approximately 57.6%, or 9.6 million bpd, is currently owned and operated by independent refining companies compared to 2002 when approximately 31.6%, or 5.1 million bpd, was owned by independent refining companies. The remaining capacity is controlled by integrated oil companies. Because of this trend, the refining industry increasingly must rely on its own operations for its profitability.

We believe our three refineries currently benefit from secular growth in North American crude production because of our ability to access lower cost WTI price based crudes. According to a recent EIA publication, average United States crude oil production in 2013 is expected to grow by approximately 1.9 million bpd, to 7.4 million bpd from 5.5 million bpd in 2010, an increase of approximately 35%. This level of United States crude oil production would represent the highest level since 1992. In addition, CAPP projects that Canadian crude oil production will increase by approximately 700,000 bpd, from 2.8 million bpd in 2010 to 3.9 million bpd in 2015. As a result of the recent and projected growth in North American crude production, the United States has reduced its reliance on imported crude. The EIA estimates that crude imported from foreign sources (crude from outside North America) since 2008 has declined by approximately 1.3 million bpd or 13.5%, to 8.4 million bpd as of December 31, 2012 and is forecasted to decline by an additional 850,000 bpd by the end of 2013. With the addition of our crude rail unloading facilities at Delaware City and our investment in a crude railcar fleet, we expect our East Coast refineries to capitalize on the growth in both Canadian and United States crude oil production, while maintaining the flexibility to source waterborne crude. Our Toledo refinery receives WTI price based crudes by pipeline, truck and rail.

Supply and demand dynamics can vary by region, creating differentiated margin opportunities at any given time for refiners depending on the location of their facilities. Our Toledo refinery is located in the Mid-Continent (PADD 2) and our Delaware City and Paulsboro refineries are both located on the East Coast (PADD 1). In both of these regions, product demand exceeds refinery capacity. We expect that this demand/capacity imbalance may continue. For example, since 2009 16 refineries representing approximately 2.6 million bpd of refining capacity have been closed or idled in the Atlantic Basin (which includes PADD 1). This Atlantic Basin reduction has occurred across the United States, Europe and the Caribbean and directly affects our East Coast refineries because we compete with operating refineries in these markets. In addition, the supply reduction provides opportunities to export products to markets formerly served by refineries that are now closed or idled.

Refining is primarily a margin-based business where both the feedstock (primarily crude oil) and refined petroleum products are commodities with fluctuating prices. Refiners create value by selling refined petroleum products at prices higher than the costs of acquiring crude oil and other feedstocks, and by managing operating costs. Refining is an industry that historically has seasonal influences as a result of differentiated consumer demand for key refined products during certain months of the year. Most importantly, demand for gasoline is generally higher during the summer months than during the winter months due to seasonal increases in highway traffic and construction work. Decreased demand during the winter months can lower gasoline prices. Consequently, refining margins and profitability have historically generally been stronger in the second and third calendar quarters of each year relative to the first and fourth calendar quarters.

Table of Contents

Our Competitive Strengths

We believe that we have the following competitive strengths:

Strategically located refineries with cost and supply advantages. Our Mid-Continent Toledo refinery advantageously sources a substantial portion of its WTI-based crude slate from sources in Canada and throughout the Mid-Continent. The balance of the crude oil is delivered by truck from local sources and by rail to a nearby terminal. Recent increases in production volumes of crudes from Western Canada and the Mid-Continent combined with limitations on takeaway capacity in the Mid-Continent, including at Cushing, Oklahoma, where WTI is priced, have resulted in a price discount for WTI-based crudes compared to Brent-based crudes. We believe that our access to WTI-based crudes at Toledo provides us with a cost advantage versus facilities that do not have similar access to such crudes and must process Brent-based feedstocks.

Our Delaware City and Paulsboro refineries have similar supply advantages given that they have the flexibility to source crudes from around the world via the Delaware River, and can source currently price-advantaged WTI-based crudes from Western Canada and the Mid-Continent through our Delaware City crude rail unloading facility and through third party rail unloading terminals on the East Coast. We have entered into agreements to lease or purchase 5,900 crude railcars which will enable us to transport this crude to each of our refineries. Of the 5,900 crude railcars, we recently exercised options to purchase 400 railcars and have options to purchase an additional 3,600 railcars. This transportation flexibility allows our East Coast refineries to process the most cost advantaged crude available.

Our three refineries currently have access to relatively inexpensive natural gas, a primary component of a refinery s operating costs. This access provides us with a competitive advantage versus other refineries, such as those located in Europe and the Caribbean, that are forced to purchase more expensive natural gas or run fuel oil in the refining process.

Future crude supply may emerge from the development of other crude oil producing basins, including the Utica Shale play (located in portions of the Appalachian Basin and Canada), which could potentially bring significant oil production online in regional proximity to all three of our refineries, providing an attractive feedstock source with relatively low associated transportation cost.

Complex assets with a valuable product slate located in high-demand regions. Our refinery assets are located in regions where product demand exceeds refining capacity. Our refineries have a weighted-average Nelson Complexity Index of 11.3, which allows us the flexibility to process a variety of crudes. Our East Coast refineries have the highest Nelson Complexity Indices on the East Coast, allowing them to process lower cost, heavier, more sour crude oils and giving us a cost advantage over other refineries in the same region. The complexity of our refining assets allows us to produce a higher percentage of more valuable light products. For example, our East Coast refineries produce a greater percentage of distillates versus gasoline than other East Coast refineries and have 100% of the East Coast s heavy coking capacity. In addition, our Paulsboro refinery produces Group I base oils which are typically priced at a premium to both gasoline and distillates. Similarly, our Toledo refinery is a high-conversion refinery with high gasoline and distillate yields and also produces high-value petrochemical products.

Significant scale and diversification. We currently operate three refineries with a combined crude throughput of 540,000 bpd making us the fifth largest independent refiner in the United States. Our refineries provide us diversification through crude slates, end products, customers and geographic locations. Our scale provides us buying power advantages, and we benefit from the cost efficiencies that result from operating three large refineries.

Table of Contents

Recent capital investments and restructuring initiatives to improve financial returns. Since 2006, with the inclusion of investments by prior owners, over $2.9 billion of capital has been invested in our three refineries to improve their operating performance, to meet environmental and regulatory standards, and to minimize the need for near-term capital expenditures. For example, since our acquisition of Delaware City, we have invested more than $500.0 million in turnaround and re-start projects that have improved the cost structure and profitability of the refinery, as well as in the recent strategic development of a new crude rail unloading facility. In addition, we are spending approximately $115.0 million, of which $62.4 million has been spent as of March 31, 2013, to expand and upgrade the existing and construct new rail unloading infrastructure that will allow us to discharge approximately 180,000 bpd of cost advantaged, WTI-based crudes for our Delaware City refinery and Paulsboro refinery. By the end of 2014, 80,000 bpd is expected to be heavy crude and 100,000 bpd is expected to be lighter grades delivered by unit train. In conjunction with the re-start of Delaware City in 2011, we undertook a significant restructuring of the operations to improve its operating cost position, including reductions in labor costs compared to operations before shutdown by Valero, reductions in energy costs and reductions in other ongoing operating and maintenance expenses. Management estimates that the Delaware City restructuring has reduced the refinery s annual operating expenses by over $200.0 million relative to pre-acquisition operating expense level (without including the rail upgrades). We made significant operating improvements in the first year of our operations by modifying the crude slate and product yield, changing operations of the conversion units and re-starting certain units.

Experienced management team with a demonstrated track record of acquiring, integrating and operating refining assets. Our management team is led by our Executive Chairman of the Board of Directors, Thomas D. O Malley, who has more than 30 years experience in the refining industry and has led the acquisition of more than 20 refineries during his career. In addition, our executive management team, including our Chief Executive Officer, Thomas J. Nimbley, and our President, Michael D. Gayda, has a proven track record of successfully operating refining assets. Our core management team has significant experience working together, including while at Tosco Corporation and Premcor Inc. These executives have a long history of acquiring refineries at attractive prices and integrating these operations into a single, consolidated platform. For example, we believe we acquired the Paulsboro, Delaware City and Toledo refineries at or near the bottom of the refining cycle at a small fraction of replacement cost. These acquisitions were made at lower prices on a per barrel basis and significantly lower prices on a complexity barrel basis than other comparable acquisitions over the past five years. Our management has invested over $38.3 million in PBF LLC to date.

Our Business Strategy

Our primary goal is to create stockholder value by improving our market position as one of the largest independent refiners and suppliers of petroleum products in the United States. We intend to execute the following strategies to achieve our goal:

Maintain efficient refinery operations. We intend to operate our refineries as reliably and efficiently as possible and further improve our operations by maintaining our costs at competitive levels, seeking to optimize utilization of our refinery asset base, and making focused high-return capital improvements designed to generate incremental profits.

We are continuously looking for ways to improve our overall operating efficiencies. For example, our refineries in Paulsboro and Delaware City are located approximately 30 miles apart from one another on the Delaware River. Both refineries have the capability to process heavy, sour crudes and have complementary operating units, and we exchange certain feedstocks and intermediates between the refineries in an effort to optimize profitability. We are able to recognize cost savings associated with the sharing of crude oil deliveries for these refineries. In addition to allowing us to share crude cargoes transported to our East Coast refineries via water, the construction of our new crude rail unloading facility at Delaware City will also help us realize better

Table of Contents

crude economics, because we will be able to deliver crude via rail through our own facilities and process WTI-based crudes at both Delaware City and Paulsboro. We employ a small, centralized corporate staff that provides capital control and oversight and have experienced managers making operational decisions at our refineries.

Continue to grow through acquisitions and internal projects. We believe that we will encounter attractive acquisition opportunities as a result of the continuing strategic divestitures by major integrated oil companies and the rationalization of specific refinery assets. In selecting future acquisitions and internal projects, we intend to consider, among other things, the following criteria: performance through the cycle, access to advantageous crude supplies, attractive refined product end market fundamentals, access to storage, distribution and logistics infrastructure, acquisition price and our ability to maintain a conservative capital structure, and synergies with existing assets. We recently formed subsidiaries for the purposes of holding MLP qualifying assets. We own a number of energy-related logistical assets that qualify for an MLP structure. However, we continue to evaluate our strategic alternatives for these assets.

Promote operational excellence in reliability and safety. We will continue to devote significant time and resources toward improving the reliability and safety of our operations. We will seek to improve operating performance through our commitment to our preventive maintenance program and to employee training and development programs. We will continue to emphasize safety in all aspects of our operations. We believe that a superior reliability record, which can be measured and managed like all other aspects of our business, is inherently tied to safety and profitability.

Create an organization highly motivated to maintain earnings and improve return on capital. We have created an organization in which employees are highly motivated to maintain earnings and improve return on capital. Our cash incentive compensation plan, which covers all non-unionized employees, is solely based on achieving earnings above designated levels. Our equity incentive plan provides participating employees with an equity stake in us and aligns their interests with our investors interests.

Our Corporate Structure and Initial Public Offering

We are a holding company and our sole asset is an equity interest in PBF LLC. We are the sole managing member of PBF LLC and operate and control all of the business and affairs and consolidate the financial results of PBF LLC and its subsidiaries. PBF LLC is a holding company for the companies that directly or indirectly own and operate our business.

On December 18, 2012 we completed our initial public offering by issuing 23,567,686 shares of our Class A common stock at a public offering price of $26.00 per share. The proceeds to us from the offering, before deducting underwriting discounts, were approximately $612.8 million, of which we used approximately $571.2 million to purchase 21,967,686 PBF LLC Series A Units from our financial sponsors, Blackstone and First Reserve, and used the remaining $41.6 million of proceeds to purchase 1,600,000 newly-issued PBF LLC Series C Units from PBF LLC, which in turn used these proceeds to pay all of the expenses of the offering, including aggregate underwriting discounts of $33.7 million and other offering expenses of approximately $7.9 million.

As of May 15, 2013, Blackstone and First Reserve and our executive officers and directors and certain employees beneficially owned 72,974,725 PBF LLC Series A Units (we refer to all of the holders of the PBF LLC Series A Units as the members of PBF LLC other than PBF Energy) and we owned 23,613,835 PBF LLC Series C Units. The other members of PBF LLC through their holdings of Class B common stock have 75.6% of the voting power in us, and the holders of our issued and outstanding shares of our Class A common stock have 24.4% of the voting power in us. As a result of their current ownership of the Class B common stock and the PBF LLC Series A Units, Blackstone and First Reserve continue (and will continue after this offering) to control us, and we in turn, as the sole managing member of PBF LLC, control PBF

LLC and its subsidiaries.

Table of Contents

Certain of our officers hold profits interests in PBF LLC (which we refer to as the PBF LLC Series B Units), which had no taxable value at the date of issuance, have no voting rights and are designed to increase in value only after our financial sponsors achieve certain levels of return on their investment in PBF LLC Series A Units. In addition, certain of the members of PBF LLC and other employees hold options and warrants to purchase PBF LLC Series A Units.

In June 2013, we received an exchange notice from Blackstone and First Reserve requesting that, in connection with this offering, we exchange an aggregate of 15,950,000 PBF LLC Series A Units held by them (or 18,342,500 PBF LLC Series A Units if the underwriters exercise in full their option to purchase additional shares) for an equivalent number of shares of our Class A common stock pursuant to the terms of the exchange agreement described under Certain Relationships and Related Transactions IPO Related Agreements Exchange Agreement. We will consummate the exchange immediately prior to this offering and issue an aggregate of 15,950,000 shares of our Class A common stock (or 18,342,500 shares of Class A common stock if the underwriters exercise in full their option to purchase additional shares), all of which shares are being offered by the selling stockholders pursuant to this prospectus. The units we acquire from Blackstone and First Reserve will be reclassified as PBF LLC Series C Units in connection with the exchange, and as a result of the exchange, our economic interest in PBF LLC will increase. See Selling Stockholders and Certain Relationships and Related Transactions IPO Related Agreements and Interest of the Holders of PBF LLC Series B Units in this Offering.

The diagram below depicts our ownership and organizational structure after giving effect to the exchange by the selling stockholders and this offering (assuming no exercise by the underwriters of their option to purchase 2,392,500 additional shares of our Class A common stock):

See Certain Relationships and Related Transactions Our Initial Public Offering and IPO Related Agreements for further information.

Delaware City Rail Facility Developments

In early 2012, we developed a comprehensive, multi-phase crude-by-rail plan to strategically procure, transport via rail and offload at newly constructed facilities at our Delaware City refinery, WTI-based crudes from Western Canada and the Mid-Continent which provide significant cost advantages versus traditional Brent-based international crudes.

Table of Contents

Our first offloading facility, initially commissioned in May 2012, leveraged existing infrastructure at Delaware City, including steam and nitrogen capabilities, to offload crude shipments via rail. Today, this 25-railcar spot facility has a dedicated steaming rack, rail crude unloading capacity of 40,000 bpd and is capable of handling both heavy and light crude oil. In February 2013, we completed a second crude unloading facility at the Delaware City refinery that consists of a double-loop track and 25-railcar spot facility with crude unloading capacity of 70,000 bpd. The double-loop track design is highly efficient with storage capacity for more than two 100-railcar unit trains, and is capable of discharging a unit train in 12 to 16 hours. Collectively, our first two rail unloading facilities were designed to offload 110,000 bpd, consisting of 40,000 bpd of heavy crude oil and 70,000 bpd of light crude oil. However, due to greater operating efficiency, discharge capacity for light crude oil at our dual-loop track has increased from 70,000 bpd to approximately 100,000 bpd. In conjunction with the development of our rail crude unloading facilities at Delaware City, we constructed a railcar storage yard with capacity for 330 railcars that is integral to railcar staging and storage and helps facilitate daily rail traffic at the refinery. Also in February 2013, our board of directors approved a third rail crude offloading project to add an additional 40,000 bpd of heavy crude rail unloading capability at the refinery. The project is expected to cost approximately $62 million and to be completed in 2014. Completion of this third rail project will increase our discharge capacity of heavy crude oil from 40,000 bpd to 80,000 bpd and bring the total rail crude unloading capability up to 180,000 bpd. As a result of our crude rail unloading facility expansion, the delivery of coiled and insulated railcars, the development of crude rail loading infrastructure in Canada and the use of unit trains, we expect to be taking delivery of approximately 80,000 bpd of Canadian heavy crude oil at the Delaware City refinery by the end of 2014.

We recently entered into agreements to lease or purchase a total of 5,900 railcars, including 4,600 coiled and insulated rails cars, which are capable of transporting Canadian heavy crude oils, and 1,300 general purpose cars, which we intend to use to transport lighter crude oils. In addition to the construction of our rail unloading facilities at Delaware City and the execution of our railcar procurement strategy, we also created dedicated crude-by-rail acquisition and rail logistics teams. These teams, staffed by PBF employees in our corporate headquarters, at the Delaware City refinery and in our field office in Calgary, Alberta, are responsible for crude procurement, logistics via rail and monitoring crude-by-rail offloading. In April 2013, we opened a field office in Oklahoma City to augment these activities.

Recent Developments

We recently announced that we have seen an escalation, of approximately 10%, in the cost of renewable fuel credits, known as RINs, required for compliance with the Renewable Fuels Standard. In April 2013, we estimated our full year 2013 RINs expense would be approximately $160 million. Due to the recent price increase for ethanol-linked RINs, we expect our 2013 RINs expense to be higher than our April 2013 estimate as our current estimated expense for the six months ended June 30, 2013 is approximately $90 million. In addition to the direct RINs expense, we estimate that there may be an additional cost of approximately $100 million embedded in the price of ethanol we buy and blend into gasoline. Our RINs purchase obligation is dependent on our actual shipment of on road transportation fuels domestically and the amount of blending achieved.

We recently announced that we are pursuing capital project opportunities designed to increase the profitability of our Toledo refinery. These projects are expected to improve crude sourcing and flexibility, further diversify our product sales into higher margin chemicals and improve the ULSD and total liquid yield from the Toledo refinery. We estimate aggregate capital expenditures related to these projects of approximately $85 million through the end of 2014.

Our board of directors recently authorized us to continue our activities into establishing an MLP, including the formation of subsidiaries to hold MLP-qualifying assets. We have a number of energy-related logistical assets that qualify for an MLP structure. However, we continue to evaluate our strategic alternatives for these assets.

Table of Contents

Risk Factors

An investment in our Class A common stock involves a number of risks, including changes in industry-wide refining margins and crude oil price differentials, competition and other material factors, that could materially affect our business, financial condition and results of operations, and cause the trading price of our Class A common stock to decline. For a discussion of these risks and other considerations that could negatively affect us, including risks related to this offering and our Class A common stock, see Risk Factors and Forward-Looking Statements in this prospectus and the documents incorporated by reference into this prospectus.

Company Information

We are a Delaware corporation incorporated on November 7, 2011 with our principal executive offices located at One Sylvan Way, Second Floor, Parsippany, NJ 07054 and our telephone number is (973) 455-7500. Our website address is *http://www.pbfenergy.com*. The information contained on our website or that is or becomes accessible through our website neither constitutes part of this prospectus nor is incorporated by reference into this prospectus.

The Offering

Class A common stock to be offered by the selling stockholders	15,950,000 shares
Option to purchase additional securities	2,392,500 shares
Class A common stock outstanding immediately after this offering	39,563,835 shares of Class A common stock (or 41,956,335 shares if the underwriters exercise in full their option to purchase additional shares).
Ownership of PBF LLC Units immediately after this offering	57,024,725 PBF LLC Series A Units (or 54,632,225 PBF LLC Series A Units if the underwriters exercise in full their option to purchase additional shares) held by the members of PBF LLC other than PBF Energy and 39,563,835 PBF LLC Series C Units (or 41,956,335 PBF LLC Series C Units if the underwriters exercise in full their option to purchase additional shares) held by PBF Energy. See Exchange rights below.
Exchange rights	The members of PBF LLC other than PBF Energy have the right pursuant to an exchange agreement to cause PBF LLC to exchange their PBF LLC Series A Units for shares of our Class A common stock on a one-for-one basis, subject to equitable adjustment for stock splits, stock dividends and reclassifications, and further subject to the rights of the holders of PBF LLC Series B Units to share in a portion of the profits realized by Blackstone and First Reserve upon the sale of the shares of our Class A common stock received by them upon such exchange.

In June 2013, we received an exchange notice from Blackstone and First Reserve requesting that, in connection with this offering, we exchange an aggregate of 15,950,000 PBF LLC Series A Units held by them (or 18,342,500 PBF LLC Series A Units if the underwriters exercise in full their option to purchase additional shares) for an equivalent number of shares of our Class A common stock pursuant to the terms of the exchange agreement described under Certain Relationships and Related Transactions IPO Related Agreements Exchange Agreement.

Voting rights	Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally.

Table of Contents

The holders of PBF LLC Series A Units hold all of the shares of Class B common stock. The shares of Class B common stock have no economic rights but entitle the holder, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to stockholders of PBF Energy that is equal to the aggregate number of PBF LLC Series A Units held by such holder. As the holders exchange their PBF LLC Series A Units for shares of our Class A common stock pursuant to the exchange agreement, the voting power afforded to their shares of Class B common stock will be automatically and correspondingly reduced.

	Holders of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law.
	Immediately following this offering, our public stockholders will have 41.0% of the voting power in PBF Energy (or 43.4% if the underwriters exercise in full their option to purchase additional shares), and the members of PBF LLC other than PBF Energy (including Blackstone and First Reserve) by virtue of their shares of Class B common stock will have the remaining voting power in PBF Energy. See Description of Capital Stock.
Use of proceeds	We will not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders. The selling stockholders will receive all of the net proceeds (subject to the rights of the holders of PBF LLC Series B Units to share in a portion of the profits realized by the selling stockholders upon of the sale of their shares in this offering) and bear all commissions and discounts, if any, from the sales of our Class A common stock offered by them pursuant to this prospectus. See Use of Proceeds, Certain Relationships and Related Transactions IPO Related Agreements Summary of PBF LLC Series B Units and Interest of the Holders of PBF LLC Series B Units in this Offering, and Selling Stockholders.
Dividend policy	We currently intend to pay quarterly cash dividends of approximately $0.30 per share on our Class A common stock. The declaration, timing and amount of any such dividends will be at the sole discretion of our board of directors and will depend on a variety

	of factors, including general economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, plans for expansion, tax, legal, regulatory and contractual restrictions and implications, including under our tax receivable agreement and our subsidiaries outstanding debt documents, and such other factors as our board of directors may deem relevant. Because we are a holding company, our cash flow and ability to pay dividends depends upon the financial results and cash flows of our operating subsidiaries and the distribution or other payment of cash to us in the form of dividends or otherwise from PBF LLC. See Price Range of Common Stock and Dividend Policy.
New York Stock Exchange symbol	PBF

Unless we specifically state otherwise, all information in this prospectus:

- reflects 23,613,835 shares of our Class A common stock outstanding as of May 15, 2013;
- gives pro forma effect to the exchange by the selling stockholders of 15,950,000 PBF LLC Series A Units for an equivalent number of shares of our Class A common stock;
- assumes no exercise by the underwriters of their option to purchase 2,392,500 additional shares of our Class A common stock;
- does not reflect an additional 57,024,725 shares (or 54,632,225 shares if the underwriters exercise in full their option to purchase additional shares) of Class A common stock issuable upon exchange of PBF LLC Series A Units outstanding immediately following this offering; and
- excludes (a) outstanding options and warrants to purchase 1,240,744 PBF LLC Series A Units, at a weighted average exercise price of $10.42 per unit, of which 912,410 are vested and exercisable immediately following this offering, (b) outstanding options to purchase 805,000 shares of Class A common stock, at a weighted average exercise price of $27.86 per share, none of which are vested or exercisable immediately following this offering and (c) an additional 4,152,386 shares authorized and reserved for issuance for future awards under our 2012 equity incentive plan.

Table of Contents

Summary Historical and Pro Forma Financial and Other Data

The following table sets forth our summary historical and pro forma consolidated financial data at the dates and for the periods indicated. The summary historical consolidated financial data as of December 31, 2011 and 2012 and for the years ended December 31, 2010, 2011 and 2012 have been derived from our audited financial statements included in our 2012 Form 10-K, which are incorporated by reference herein. The summary historical consolidated financial data as of December 31, 2010 has been derived from audited financial statements of PBF LLC, our predecessor for accounting purposes, not included or incorporated by reference in this prospectus. As a result of the Paulsboro and Toledo acquisitions, our historical consolidated financial results only include the results of operations for Paulsboro and Toledo from December 17, 2010 and March 1, 2011, respectively. The information as of and for the three months ended March 31, 2012 and 2013 was derived from the unaudited condensed consolidated financial statements included in our March 31, 2013 Form 10-Q, which is incorporated by reference herein, and includes all adjustments, consisting of normal recurring adjustments, which management considers necessary for a fair presentation of the financial position and the results of operations for such periods. Results for the interim periods are not necessarily indicative of the results for the full year.

The summary unaudited pro forma consolidated financial data have been derived by the application of pro forma adjustments to our historical consolidated financial statements included in our 2012 Form 10-K and our March 31, 2013 Form 10-Q, which are incorporated by reference herein. The summary unaudited pro forma consolidated statement of operations data for the year ended December 31, 2012 gives effect to our initial public offering and related reorganization transactions and the $675.5 million aggregate principal amount of 8.25% Senior Secured Notes due 2020 issued by PBF Holding in February 2012, which we refer to as the PBF Holding Senior Secured Notes (as described under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Comparability Senior Secured Notes Offering in our 2012 Form 10-K) and the effects of this offering, as if they had occurred on January 1, 2012. The summary unaudited pro forma consolidated statement of operations data for the three months ended March 31, 2013 gives effect to this offering as if it had occurred on January 1, 2013. The summary unaudited pro forma consolidated balance sheet data as of March 31, 2013 gives effect to the aggregate distributions made by PBF LLC subsequent to March 31, 2013 and the effects of the exchange by the selling stockholders and this offering as if they had occurred on January 1, 2013.

The pro forma financial information gives effect to (i) the issuance of the 15,950,000 shares of our Class A common stock to the selling stockholders (assuming the underwriters do not exercise their option to purchase any additional shares) upon exchange of an equivalent number of PBF LLC Series A Units, (ii) an estimated public offering price of $29.17 per share, the closing price of our Class A common stock on the NYSE on May 31, 2013, (iii) the increase in PBF Energy s ownership of PBF LLC from 24.4% to 41.0% (assuming the underwriters do not exercise their option to purchase any additional shares), and (iv) an increase in our estimated undiscounted future liability under the tax receivable agreement of $133.7 million, resulting increases in our net deferred tax asset balances of $108.0 million and estimates of future realizability, and re-calculation of our estimated effective income tax rate. An increase in the estimated per share price would increase our tax basis in the acquired assets. On a pro forma basis, we estimate that a $1.00 per share increase from the assumed $29.17 per share price would increase total deferred income taxes, total tax receivable agreement liability, and total equity by approximately $8.9 million, $7.6 million, and $1.3 million, respectively, and a $1.00 per share decrease from the assumed $29.17 per share price would have a similar inverse impact on the same items.

The estimates and assumptions used in preparation of the pro forma financial information may be materially different from our actual experience in connection with this offering by the selling stockholders.

You should read this information in conjunction with our consolidated financial statements and the related notes thereto, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 6. Selected Financial Data included in our 2012 Form 10-K and our unaudited condensed

13

consolidated financial statements and the related notes thereto and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in our March 31, 2013 Form 10-Q, which are incorporated by reference herein, and the sections entitled Prospectus Summary Our Corporate Structure and Initial Public Offering, and Unaudited Pro Forma Consolidated Financial Statements in this prospectus. Our summary unaudited pro forma consolidated financial information is presented for informational purposes only. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. Our summary unaudited pro forma consolidated financial information does not purport to represent what our results of operations or financial position would have been if we operated as a public company during the periods presented and may not be indicative of our future performance.

	Year Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2012	Pro Forma Year Ended December 31, 2012	Three Months Ended March 31, 2012	Three Months Ended March 31, 2013	Pro Forma Three Months Ended March 31, 2013
				(in thousands)			
Statement of operations data:							
Revenues[1]	$ 210,671	$ 14,960,338	$ 20,138,687	$ 20,138,687	$ 4,716,106	$ 4,797,847	$ 4,797,847
Cost and expenses							
Cost of sales, excluding depreciation	203,971	13,855,163	18,269,078	18,269,078	4,660,193	4,435,101	4,435,101
Operating expenses, excluding depreciation	25,140	658,831	738,824	738,824	188,143	206,015	206,015
General and administrative expenses	15,859	86,183	120,443	112,256	13,814	30,094	30,094
Acquisition related expenses[2]	6,051	728					
Gain on sale of assets			(2,329)	(2,329)	(2,503)		
Depreciation and amortization expense	1,402	53,743	92,238	92,238	20,542	26,532	26,532
	252,423	14,654,648	19,218,254	19,210,067	4,880,189	4,697,742	4,697,742
(Loss) income from operations	(41,752)	305,690	920,433	928,620	(164,083)	100,105	100,105
Other (expense) income							
Change in fair value of catalyst lease obligation	(1,217)	7,316	(3,724)	(3,724)	(6,348)	(1,339)	(1,339)
Change in fair value of contingent consideration		(5,215)	(2,768)	(2,768)	(692)		
Interest income (expense), net	(1,388)	(65,120)	(108,629)	(108,768)	(31,408)	(21,611)	(21,611)
(Loss) income before income taxes	(44,357)	242,671	805,312	813,360	(202,531)	77,155	77,155
Income taxes			(1,275)	(131,511)		(7,444)	(12,480)
Net (loss) income	$ (44,357)	$ 242,671	804,037	681,849	$ (202,531)	69,711	64,675
Less Net income attributable to noncontrolling interest			802,081	480,362		58,305	45,551
Net income attributable to PBF Energy Inc.			$ 1,956	$ 201,487		$ 11,406	$ 19,124
Adjusted pro forma net income (loss)[3]	$ (26,854)	$ 146,913	$ 492,492	$ 492,298	$ (122,552)	$ 46,686	$ 46,686
Balance sheet data (at end of period):							
Total assets	$ 1,274,393	$ 3,621,109	$ 4,253,702	$ 4,257,846	$ 3,951,024	$ 4,509,073	$ 4,513,217
Total long-term debt[4]	325,064	804,865	729,980	729,980	1,087,593	727,548	727,548
Total equity	458,661	1,110,918	1,723,545	1,593,976	909,158	1,761,191	1,631,622
Selected financial data:							
Adjusted EBITDA[5]	$ (28,699)	$ 388,219	$ 1,044,073	$ 1,052,260	$ (155,725)	$ 109,081	$ 109,081
Capital expenditures[6]	$ 72,118	$ 574,883	$ 222,688	$ 222,688	$ 42,327	$ 59,153	$ 59,153

(1) Consulting services income provided to a related party was $10 for the year ended December 31, 2010. No consulting services income was earned subsequent to 2010.

(2) Acquisition related expenses consist of consulting and legal expenses related to the Paulsboro and Toledo acquisitions as well as non-consummated acquisitions.

(3) Adjusted pro forma net income (loss) is a non-GAAP measure that presents our net income on a basis that assumes the exchange of all PBF LLC Series A units into shares of PBF Energy Inc. Class A common stock on a one-for-one basis, resulting in the elimination of the noncontrolling interest and a corresponding adjustment to our income tax expense. We believe that adjusted pro forma net income (loss), when presented in conjunction with comparable GAAP measures, is useful to investors in understanding our operating and financial performance across different periods and to facilitate an understanding of our operating results. The following table reconciles net income attributable to PBF Energy Inc. to adjusted pro forma net income:

	Year Ended December 31,			Pro Forma			Pro Forma
	2010	2011	2012	Year Ended December 31, 2012	Three Months Ended March 31, 2012	Three Months Ended March 31, 2013	Three Months Ended March 31, 2013
Net income attributable to PBF Energy Inc.	$	$	$ 1,956	$ 201,487	$	$ 11,406	$ 19,124
Add: IPO-related expenses[a]			8,187				
Add: interest expense[b]							
Add: Net income (loss) attributable to the noncontrolling interest[c]	(44,357)	242,671	802,081	480,362	(202,531)	58,305	45,551
Less: Income tax (expense) benefit[d]	17,503	(95,758)	(319,732)	(189,551)	79,979	(23,025)	(17,989)
Adjusted pro forma net income (loss)	$ (26,854)	$ 146,913	$ 492,492	$ 492,298	$ (122,552)	$ 46,686	$ 46,686

(a) Represents the elimination of one-time charges associated with our IPO.
(b) Represents the estimated impact of the PBF Holding Senior Secured Notes offering and the refinancing of existing senior debt.
(c) Represents the elimination of the noncontrolling interest associated with the ownership of existing Series A Unit holders of PBF Energy Company LLC, as if the holders had fully exchanged their Series A Units for shares of our Class A common stock.
(d) Represents an adjustment to reflect our current effective corporate tax rate of approximately 39.5% applied to all periods presented. The adjustment assumes the full exchange of existing PBF Energy Company LLC Series A Units as described in (c) above.

(4) Total long-term debt includes current maturities and our Delaware Economic Development Authority Loan.
(5) We believe Adjusted EBITDA is an important measure of operating performance and provides useful information to investors because it highlights trends in our business that may not otherwise be apparent when relying solely on GAAP measures and eliminates items that have less bearing on our operating performance.

Adjusted EBITDA, as presented herein, is a supplemental measure of performance that is not required by, or presented in accordance with, GAAP. We use this non-GAAP financial measure as a supplement to our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business. Adjusted EBITDA is a measure of operating performance that is not defined by GAAP and should not be considered a substitute for net income as determined in accordance with GAAP.

Also, because Adjusted EBITDA is not calculated in the same manner by all companies, it is not necessarily comparable to other similarly titled measures used by other companies. Adjusted EBITDA has its limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of Adjusted EBITDA are:

Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

Although depreciation and amortization are non-cash charges, the asset being depreciated or amortized often will have to be replaced and Adjusted EBITDA does not reflect the cash requirements for such replacements;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital requirements; and

Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to make payments of interest or principal on our indebtedness.

Table of Contents

The following table reconciles net income (loss) (or, on a pro forma basis, net income attributable to PBF Energy Inc.) to Adjusted EBITDA:

	Year Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2012 (f)	Pro Forma Year Ended December 31, 2012 (g)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2013 (h)	Pro Forma Three Months Ended March 31, 2013 (i)
				(in thousands)			
Net (loss) income	$ (44,357)	$ 242,671	$ 804,037	$ 681,849	$ (202,531)	$ 69,711	$ 64,675
Income taxes			1,275	131,511		7,444	12,480
Interest (income) expense, net	1,388	65,120	108,629	108,768	31,408	21,611	21,611
Depreciation and amortization	1,402	53,743	92,238	92,238	20,542	26,532	26,532
Stock-based compensation	2,300	2,516	2,954	2,954	507	1,020	1,020
Acquisition related expense(a)	6,051	728					
Non-cash change in market value of inventory repurchase obligation(b)	2,043	18,771	9,271	9,271	(6,921)	(11,042)	(11,042)
Non-cash deferral of gross profit on finished product sales(c)	1,257	6,771	19,177	19,177	(5,770)	(7,534)	(7,534)
Change in fair value of catalyst lease obligations(d)	1,217	(7,316)	3,724	3,724	6,348	1,339	1,339
Change in fair value of contingent consideration(e)		5,215	2,768	2,768	692		
Adjusted EBITDA	$ (28,699)	$ 388,219	$ 1,044,073	$ 1,052,260	$ (155,725)	$ 109,081	$ 109,081

(a) See footnote (2) above.

(b) Certain of our crude and feedstock supply agreements require that we repurchase inventory held by our counterparties at a future date at the then fair market value. We are required to record these repurchase obligations at their fair market value at the end of each reporting period. The change in fair market value based on changes in commodity prices is a non-cash charge or benefit included in cost of sales. We add back the impact of the change in market value of these future inventory repurchase obligations in arriving at Adjusted EBITDA to better reflect Adjusted EBITDA on a cash-basis.

(c) We sell our production of light finished products at our Paulsboro and Delaware City refineries to a single counterparty. On a daily basis, the counterparty purchases and pays for the products as they are produced, delivered to the refineries storage tanks, and legal title passes to the counterparty. Revenue and gross profit on these product sales are deferred until the products are shipped out of our storage facility, which typically occurs within an average of six days. We add back the non-cash deferral of the gross profit on these product sales in arriving at Adjusted EBITDA to better reflect Adjusted EBITDA on a cash-basis.

(d) We entered into agreements pursuant to which certain precious metals catalyst located at our refineries were sold and leased back for periods of up to three years. We have recorded these transactions as capital leases as we are required to repurchase the precious metals catalyst at its market value at lease termination. We elected the fair value option for accounting for the catalyst repurchase obligations and the change in fair value of the underlying precious metals is recorded in the income statement as a non-cash charge or benefit each reporting period. We add back the impact of the change in fair value of these future precious metal catalyst repurchase obligations in arriving at Adjusted EBITDA to better reflect Adjusted EBITDA on a cash-basis.

(e) In connection with the Toledo acquisition, the seller will be paid an amount equal to 25% of the amount by which the purchased assets EBITDA exceeds $125.0 million in a given calendar year through 2016 (pro-rated for 2011 and 2016). The aggregate amount of such payments cannot exceed $125.0 million. The purchased assets EBITDA is calculated using calendar year earnings we have earned solely from the purchase of Toledo including reasonable direct and allocated overhead expenses, less any significant extraordinary or non-recurring expenses, and any fees or expenses incurred by us in connection with the Toledo acquisition. A charge or benefit is recorded each reporting period reflecting the change in the estimated fair value of the contingent consideration we expect to pay in connection with our acquisition of

the Toledo refinery. We add back the impact of the change in fair value of the contingent consideration in arriving at Adjusted EBITDA to better reflect Adjusted EBITDA on a cash-basis.

(f) Net income (loss) includes net income attributable to PBF Energy Inc. of $1,956 and net income attributable to noncontrolling interests of $802,081.

(g) Net income (loss) includes net income attributable to PBF Energy Inc. of $201,487 and net income attributable to noncontrolling interests of $480,362.

(h) Net (loss) income includes net income attributable to PBF Energy Inc. of $11,406 and net income attributable to noncontrolling interests of $58,305.

(i) Net (loss) income includes net income attributable to PBF Energy Inc. of $19,124 and net income attributable to noncontrolling interests of $45,551.

(6) Includes expenditures for construction in progress, property, plant and equipment, deferred turnaround costs and other assets.

RISK FACTORS

An investment in our Class A common stock involves a number of risks. Please see the risk factors described below and the risk factors under Item 1A. Risk Factors in our 2012 Form 10-K, which are incorporated by reference in this prospectus. You should carefully consider, in addition to the other information contained in this prospectus and the information incorporated by reference herein, these risks before investing in our Class A common stock. These risks could materially affect our business, financial condition and results of operations, and cause the trading price of our Class A common stock to decline. You could lose part or all of your investment. You should bear in mind, in reviewing this prospectus and the information incorporated by reference herein, that past experience is no indication of future performance. You should read the section titled Forward-Looking Statements for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this prospectus and any prospectus supplement.

Risks Related to Our Organizational Structure and Our Class A Common Stock

Our only material asset is our interest in PBF LLC. Accordingly, we depend upon distributions from PBF LLC and its subsidiaries to pay our taxes, meet our other obligations and/or pay dividends in the future.

We are a holding company and all of our operations are conducted through subsidiaries of PBF Holding. We have no independent means of generating revenue and no material assets other than our ownership interest in PBF LLC. Therefore, we depend on the earnings and cash flow of our subsidiaries to meet our obligations, including our indebtedness, tax liabilities and obligations to make payments under our tax receivable agreement. If we or PBF LLC do not receive such cash distributions, dividends or other payments from our subsidiaries, we and PBF LLC may be unable to meet our obligations and/or pay dividends.

We intend to cause PBF LLC to make distributions to its members in an amount sufficient to enable us to cover all applicable taxes at assumed tax rates, make payments owed by us under the tax receivable agreement, and to pay other obligations and dividends, if any, declared by us. To the extent we need funds and PBF LLC or any of its subsidiaries is restricted from making such distributions under applicable law or regulation or under the terms of our financing or other contractual arrangements, or is otherwise unable to provide such funds, such restrictions could materially adversely affect our liquidity and financial condition.

Our ABL Revolving Credit Facility, PBF Holding Senior Secured Notes and certain of our other outstanding debt arrangements include a restricted payment covenant, which restricts the ability of PBF Holding to make distributions to us, and we anticipate our future debt will contain a similar restriction. In addition, there may be restrictions on payments by our subsidiaries under applicable laws, including laws that require companies to maintain minimum amounts of capital and to make payments to stockholders only from profits. For example, PBF Holding is generally prohibited under Delaware law from making a distribution to a member to the extent that, at the time of the distribution, after giving effect to the distribution, liabilities of the limited liability company (with certain exceptions) exceed the fair value of its assets. As a result, we may be unable to obtain that cash to satisfy our obligations and make payments to our stockholders, if any.

We are a controlled company within the meaning of the NYSE rules. As a result, we qualify for, and may rely on, exemptions from certain corporate governance requirements.

Upon completion of this offering, Blackstone and First Reserve will continue to control a majority of the combined voting power of all classes of our voting stock. As a result, we are a controlled company within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a company of which more than 50% of the voting power is held by another company is a controlled company and may elect not to comply with certain NYSE corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that we have a corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities, (3) the requirement that we have a compensation committee that is composed entirely of

Table of Contents

independent directors with a written charter addressing the committee s purpose and responsibilities and (4) the requirement that there be an annual performance evaluation of the corporate governance and compensation committees. We might utilize certain of these exemptions. Accordingly, our stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

The requirements of being a public company may strain our resources and distract our management.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and requirements of the Sarbanes-Oxley Act of 2002. These requirements may place a strain on our systems and resources. We are required to file annual, quarterly and current reports with respect to our business and financial condition and to maintain effective disclosure controls and procedures and internal controls over financial reporting. We are implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth also will require us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We expect to incur significant additional annual expenses related to these steps and other public company expenses.

Our internal controls over financial reporting have not been audited and may not meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act, and failure to achieve and maintain effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and Class A common stock price.

Beginning with the year ending December 31, 2013, pursuant to Section 404 of the Sarbanes-Oxley Act, we will be required to furnish a report by our management on our internal control over financial reporting, and our auditors will be required to deliver an attestation report on the operating effectiveness of our internal control over financial reporting. The report by our management must contain, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

As an organization that recently exited the development stage and has grown rapidly through the acquisition of significant operations, we are currently in the process of developing our internal controls over financial reporting and establishing formal policies, processes and practices related to financial reporting and to the identification of key financial reporting risks, assessment of their potential impact and linkage of those risks to specific areas and activities within our organization. Our internal controls over financial reporting have not been audited and we may not meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act that we will eventually be required to meet.

In connection with the preparation of our financial statements during 2012, we identified significant deficiencies regarding the design and implementation of certain commercial transaction controls and management review controls as part of our financial closing process. Management continues to take steps to remediate these issues. We retained a nationally recognized certified public accounting firm to assist us with designing, documenting and implementing our internal control procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act. In addition, we recently hired a Director of Internal Audit and continue to invest in information technology systems in order to support and enhance our internal control environment.

We may not be able to successfully remediate these matters on or before December 31, 2013, the date by which we must comply with Section 404 of the Sarbanes-Oxley Act, and we may have additional deficiencies or material weaknesses in the future. We have not yet

determined the costs directly associated with these remediation activities, but they could be substantial.

Table of Contents

If we are not able to complete our initial assessment of our internal controls and otherwise implement the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, management may not be able to certify as to the adequacy of our internal controls over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of applicable stock exchange listing rules, and result in a breach of the covenants under our debt agreements. There also could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements also could suffer if our independent registered public accounting firm were to report a material weakness in our internal controls over financial reporting in the future. This could materially adversely affect us and lead to a decline in our Class A common stock price.

We are controlled by Blackstone and First Reserve through their ownership of units of PBF LLC, and their interests may differ from those of our public stockholders.

We are controlled, and after this offering will continue to be controlled, by Blackstone and First Reserve, who after this offering collectively will possess in the aggregate approximately 53.6% of the combined voting power of our common stock (or 51.2% if the underwriters exercise in full their option to purchase additional shares). As a result, Blackstone and First Reserve have the ability to elect all of our directors and thereby control our policies and operations, including the appointment of management, future issuances of securities, the incurrence of debt by us, amendments to our organizational documents and the entering into of extraordinary transactions, and their interests may not in all cases be aligned with our Class A common stockholders interests.

For example, Blackstone and First Reserve may have different tax positions which could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement described below. In addition, the structuring of future transactions may take into consideration these tax or other considerations even where no similar benefit would accrue to our Class A common stockholders or us. See Certain Relationships and Related Transactions.

Blackstone and First Reserve may have an interest in pursuing acquisitions, divestitures and other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to our Class A common stockholders. For example, they could cause us to make acquisitions that increase our indebtedness or to sell revenue-generating assets. So long as they continue to beneficially own a majority of the combined voting power of us and PBF LLC, they will have the ability to control the vote in any election of directors. In addition, pursuant to the stockholders agreement we entered into with Blackstone and First Reserve, Blackstone and First Reserve have the ability to nominate a number of our directors, including a majority of our directors, so long as certain ownership thresholds are maintained. See Certain Relationships and Related Transactions IPO Related Agreements Stockholders Agreement. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company. Lastly, Blackstone and First Reserve are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. Our certificate of incorporation contains a provision renouncing our interest and expectancy in certain corporate opportunities identified by Blackstone or First Reserve. They may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us.

We will be required to pay the holders of PBF LLC Series A Units and PBF LLC Series B Units for certain tax benefits we may claim arising in connection with our initial public offering, this offering and future exchanges of PBF LLC Series A Units for shares of our Class A Common Stock and related transactions, and the amounts we may pay could be significant.

We are party to a tax receivable agreement that provides for the payment from time to time by PBF Energy to the holders of PBF LLC Series A Units and PBF LLC Series B Units of 85% of the benefits, if any, that PBF

Table of Contents

Energy is deemed to realize as a result of (i) the increases in tax basis resulting from its acquisitions of PBF LLC Series A Units, including such acquisitions in connection with our initial public offering, this offering or in the future and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. See Certain Relationships and Related Transactions IPO Related Agreements Tax Receivable Agreement.

We expect that the payments that we may make under the tax receivable agreement will be substantial. As of March 31, 2013, we have recognized a liability for the tax receivable agreement of $160.0 million reflecting our estimate of the undiscounted amounts that we expect to pay under the agreement due to exchanges that occurred prior to that date, and to range over the next five years from approximately $1.0 million to $18.1 million per year and decline thereafter. Assuming no material changes in the relevant tax law, and that we earn sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreement, we expect that additional future payments under the tax receivable agreement relating to the exchange by the selling stockholders in connection with this offering to aggregate $133.7 million (or $153.8 million if the underwriters exercise in full their option to purchase additional shares) and to range over the next five years up to an additional $13.6 million per year (or up to an additional $15.6 million per year if the underwriters exercise in full their option to purchase additional shares) and decline thereafter. Future payments by us in respect of subsequent exchanges of PBF LLC Series A Units would be in addition to these amounts and are expected to be substantial as well. The foregoing numbers are merely estimates based on assumptions that are subject to change due to various factors, including, among other factors, the timing of exchanges of PBF LLC Series A Units for shares of PBF Energy s Class A common stock as contemplated by the tax receivable agreement, the price of PBF Energy s Class A common stock at the time of such exchanges, the extent to which such exchanges are taxable, and the amount and timing of PBF Energy s income. The actual payments could differ materially. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding tax receivable agreement payments. There may be a material negative effect on our liquidity if, as a result of timing discrepancies or otherwise, (i) the payments under the tax receivable agreement exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement, and/or (ii) distributions to PBF Energy by PBF LLC are not sufficient to permit PBF Energy, after it has paid its taxes and other obligations, to make payments under the tax receivable agreement. The payments under the tax receivable agreement are not conditioned upon any recipient s continued ownership of us.

In certain cases, payments by us under the tax receivable agreement may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement. These provisions may deter a change in control of our company.

The tax receivable agreement provides that upon certain changes of control, or if, at any time, PBF Energy elects an early termination of the tax receivable agreement, PBF Energy s (or its successor s) obligations with respect to exchanged or acquired PBF LLC Series A Units (whether exchanged or acquired before or after such transaction) would be based on certain assumptions, including (i) that PBF Energy would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement and (ii) that the subsidiaries of PBF LLC will sell certain nonamortizable assets (and realize certain related tax benefits) no later than a specified date. Moreover, in each of these instances, we would be required to make an immediate payment equal to the present value (at a discount rate equal to LIBOR plus 100 basis points) of the anticipated future tax benefits (based on the foregoing assumptions). Accordingly, payments under the tax receivable agreement may be made years in advance of the actual realization, if any, of the anticipated future tax benefits and may be significantly greater than the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement. Assuming that the market value of a share of our Class A common stock equals $29.17 per share of Class A common stock (the assumed public offering price) and that LIBOR were to be 1.85%, we estimate that, as of March 31, 2013 and after giving pro forma effect for this offering, the aggregate amount of these accelerated payments would have been approximately $702.5 million if triggered immediately on such date. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity. We may not be able

Table of Contents

to finance our obligations under the tax receivable agreement and our existing indebtedness may limit our subsidiaries ability to make distributions to us to pay these obligations. These provisions may deter a potential sale of our Company to a third party and may otherwise make it less likely a third party would enter into a change of control transaction with us.

Moreover, payments under the tax receivable agreement will be based on the tax reporting positions that we determine in accordance with the tax receivable agreement. We will not be reimbursed for any payments previously made under the tax receivable agreement if the Internal Revenue Service subsequently disallows part or all of the tax benefits that gave rise to such prior payments. As a result, in certain circumstances, payments could be made under the tax receivable agreement that are significantly in excess of the benefits that we actually realize in respect of (i) the increases in tax basis resulting from our purchases or exchanges of PBF LLC Series A Units and (ii) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

We cannot assure you that we will continue to declare dividends or have the available cash to make dividend payments.

Although we currently intend to pay quarterly cash dividends on our Class A common stock, the declaration, amount and payment of any dividends will be at the sole discretion of our board of directors. We are not obligated under any applicable laws, our governing documents or any contractual agreements with our existing owners or otherwise to declare or pay any dividends or other distributions (other than the obligations of PBF LLC to make tax distributions to its members). Our board of directors may take into account, among other things, general economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, plans for expansion, tax, legal, regulatory and contractual restrictions and implications, including under our outstanding debt documents, and such other factors as our board of directors may deem relevant in determining whether to declare or pay any dividend. Because PBF Energy is a holding company with no material assets (other than the equity interests of its direct subsidiary), its cash flow and ability to pay dividends is dependent upon the financial results and cash flows of its indirect subsidiary PBF Holding and its operating subsidiaries and the distribution or other payment of cash to it in the form of dividends or otherwise. The direct and indirect subsidiaries of PBF Energy are separate and distinct legal entities and have no obligation to make any funds available to it. As a result, if we do not declare or pay dividends you may not receive any return on an investment in our Class A common stock unless you sell our Class A common stock for a price greater than that which you paid for it.

Anti-takeover and certain other provisions in our certificate of incorporation and bylaws and Delaware law may discourage or delay a change in control.

Our certificate of incorporation and bylaws contain provisions which could make it more difficult for stockholders to effect certain corporate actions. Among other things, these provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval;
- prohibit stockholder action by written consent after the date on which Blackstone and First Reserve collectively cease to beneficially own at least a majority of all of the outstanding shares of our capital stock entitled to vote;
- restrict certain business combinations with stockholders who obtain beneficial ownership of a certain percentage of our outstanding common stock after the date Blackstone and First Reserve and their affiliates collectively cease to beneficially own at least 5% of all of the outstanding shares of our capital stock entitled to vote;

provide that special meetings of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, or Blackstone or First Reserve, for so long as Blackstone or First Reserve, in its individual capacity as the party calling the meeting,

Table of Contents

continues to beneficially own at least 25% of the total voting power of all the then outstanding shares of our capital stock, and establish advance notice procedures for the nomination of candidates for election as directors or for proposing matters that can be acted upon at stockholder meetings; and

provide that on and after the date Blackstone and First Reserve collectively cease to beneficially own a majority of all of the outstanding shares of our capital stock entitled to vote, our stockholders may only amend our bylaws with the approval of 75% or more of all of the outstanding shares of our capital stock entitled to vote.

These anti-takeover provisions and other provisions of Delaware law may have the effect of delaying or deterring a change of control of our company. Certain provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our Class A common stock. See Description of Capital Stock.

In addition, in connection with our initial public offering, we entered into a stockholders agreement with Blackstone and First Reserve pursuant to which they are entitled to nominate a number of directors so long as certain ownership thresholds are maintained. See Certain Relationships and Related Transactions IPO Related Agreements Stockholders Agreement.

Our Class A common stock has only traded since December 13, 2012. The market price of our Class A common stock may be volatile, which could cause the value of your investment to decline.

Our Class A common stock has only traded since December 13, 2012. The stock markets generally may experience significant volatility, often unrelated to the operating performance of the individual companies whose securities are publicly traded. The market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations due to a number of factors including:

variations in actual or anticipated operating results or dividends, if any, to stockholders;

changes in, or failure to meet, earnings estimates of securities analysts;

market conditions in the oil refining industry;

litigation and government investigations;

changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business or industry;

general economic and stock market conditions; and

the availability for sale, or sales, of a significant number of shares of our Class A common stock in the public market.

These and other factors may cause the market price of our Class A common stock to decrease significantly, which in turn would adversely affect the value of your investment.

In the past, following periods of volatility in the market price of a company s securities, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and a diversion of management s attention and resources, which could significantly harm our profitability and reputation.

Table of Contents

If securities or industry analysts do not publish research or reports about our business, or if they downgrade their recommendations regarding our Class A common stock, our stock price and trading volume could decline.

The trading market for our Class A common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price may decline. If analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our Class A common stock price or trading volume to decline and our Class A common stock to be less liquid.

Future sales of our shares of Class A common stock could cause our stock price to decline.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of Class A common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell shares of Class A common stock in the future at a time and at a price that we deem appropriate. In addition, any shares of Class A common stock that we issue, including under any equity incentive plans, would dilute the percentage ownership of the holders of our Class A common stock.

The shares of Class A common stock offered by the selling stockholders under this prospectus, as well as the shares sold in our initial public offering and issuable under our 2012 equity incentive plan, will be freely tradable without restriction in the United States, unless purchased or held by one of our affiliates. We are also party to a registration rights agreement with the other members of PBF LLC pursuant to which we continue to be required to register under the Securities Act and applicable state securities laws the resale of the shares of Class A common stock issuable to them upon exchange of PBF LLC Series A Units. We intend to register up to 6,464,351 shares of our Class A common stock issued or issuable to certain holders of PBF LLC Series A Units (other than Blackstone and First Reserve), which shares thereafter may be sold in the public markets, subject to the lock-up agreements described below. Our shares also may be sold under Rule 144 under the Securities Act depending on the holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates.

In connection with this offering, we, our executive officers and directors and Blackstone and First Reserve have agreed with the underwriters, subject to certain exceptions, not to sell, dispose of or hedge any of our Class A common stock or securities convertible into or exchangeable for shares of Class A common stock, during the period ending 90 days after the date of this prospectus, except with the prior written consent of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC. See Underwriting. The underwriters may, in their sole discretion and without notice, waive or release all or any portion of the shares subject to lock-up agreements prior to expiration of the lock-up period. The underwriters of our initial public offering granted such a waiver and release in order to permit us to file the registration statement of which this prospectus forms a part and for us and the selling stockholders to consummate this offering. Subject to the terms of the lock-up agreements, we also may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders. As restrictions on resale end or if we register additional shares, the market price of our stock could decline if the holders of restricted shares sell them or are perceived by the market as intending to sell them.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus and documents incorporated by reference into this prospectus contain forward-looking statements that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as believes, expects, may, should, seeks, approximately, intends, plans, estimates, or anticipates or similar expressions that relate to our strategy, plans or intentions. All statements w make in this prospectus or the documents incorporated herein by reference relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends and the information referred to under Capitalization and Unaudited Pro Forma Consolidated Financial Statements in this prospectus and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Form 10-K and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in our March 31, 2013 Form 10-Q are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as cautionary statements, are disclosed under Risk Factors in this prospectus and Item 1A. Risk Factors in our 2012 Form 10-K and elsewhere in this prospectus and documents incorporated by reference into this prospectus, including, without limitation, in conjunction with the forward-looking statements included in this prospectus. All forward-looking information in this prospectus and documents incorporated by reference into this prospectus and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

- supply, demand, prices and other market conditions for our services;
- the effects of competition in our markets;
- changes in currency exchange rates, interest rates and capital costs;
- adverse developments in our relationship with both our key employees and unionized employees;
- our ability to operate our businesses efficiently, manage capital expenditures and costs (including general and administrative expenses) tightly and generate earnings and cash flow;
- our substantial indebtedness;
- restrictive covenants in our indebtedness that may adversely affect our operational flexibility;
- payments to the holders of PBF LLC Series A Units and PBF LLC Series B Units under our tax receivable agreement for certain tax benefits we may claim, and our assumptions regarding payments arising under the tax receivable agreement and other arrangements relating to our organizational structure;

our expectations with respect to our acquisition activity;

our expectations with respect to our capital improvement projects including the development and expansion of our Delaware City crude unloading facility and obtaining a permit to transfer crude to Paulsboro;

the possibility that we might reduce or not make further dividend payments;

our ability to retain key employees;

the costs of being a public company, including Sarbanes-Oxley Act compliance;

Table of Contents

- any decisions we make with respect to our energy-related logistical assets that could qualify for an MLP structure;

- the possibility that the interests of Blackstone and First Reserve will conflict with ours; and

- the impact of any offerings pursuant to this prospectus or otherwise, including resulting tax implications.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this prospectus and documents incorporated by reference into this prospectus may not in fact occur. Accordingly, investors should not place undue reliance on those statements.

Our forward-looking statements also include estimates of the total amount of payments, including annual payments, under our tax receivable agreement. These estimates are based on assumptions that are subject to change due to various factors, including, among other factors, the timing of exchanges of PBF LLC Series A Units for shares of our Class A common stock as contemplated by the tax receivable agreement, the price of our Class A common stock at the time of such exchanges, the extent to which such exchanges are taxable, and the amount and timing of our income. See Risk Factors Risks Related to Our Organizational Structure and Our Class A Common Stock We will be required to pay the holders of PBF LLC Series A Units and PBF LLC Series B Units for certain tax benefits we may claim arising in connection with our initial public offering, this offering and future exchanges of PBF LLC Series A Units for shares of our Class A Common Stock and related transactions, and the amounts we may pay could be significant and In certain cases, payments by us under the tax receivable agreement may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement. These provisions may deter a change in control of our company.

Our forward-looking statements in this prospectus or the documents incorporated herein by reference speak only as of the date on which they are made. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements.

Table of Contents

USE OF PROCEEDS

The selling stockholders will receive all of the net proceeds (subject to the rights of the holders of PBF LLC Series B Units to share in a portion of the profits realized by the selling stockholders upon of the sale of their shares in this offering) from the sales of shares of our Class A common stock offered by them pursuant to this prospectus. We will not receive any proceeds from the sale of these shares of our Class A common stock, but we will bear the costs associated with this registration in accordance with the registration rights agreement. The selling stockholders will bear any underwriting commissions and discounts attributable to their sale of our Class A common stock. See Certain Relationships and Related Transactions IPO Related Agreements Summary of PBF LLC Series B Units and Interest of the Holders of PBF LLC Series B Units in this Offering.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our Class A common stock has traded on the New York Stock Exchange under the symbol PBF since December 13, 2012. Prior to that date, there was no public market for our Class A common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of our Class A common stock, as reported by the New York Stock Exchange, since December 13, 2012, and dividends declared per share of our Class A common stock.

	Price Range		Dividends per share of Class A
2013	**High**	**Low**	**Common Stock**
First Quarter ended March 31, 2013	$ 42.50	$ 27.10	$ 0.30
Second Quarter through May 31, 2013	$ 39.00	$ 26.01	$ 0.30[(1)]
2012			
Fourth Quarter ended December 31, 2012 (December 13, 2012 - December 31, 2012)	$ 29.05	$ 26.00	

(1) Payable on June 7, 2013 to holders of record on May 21, 2013. Accordingly, purchasers of shares of Class A common stock sold in this offering will not be entitled to receive this dividend.

The closing sale price of our Class A common stock, as reported by the New York Stock Exchange, on May 31, 2013, was $29.17 per share. As of May 31, 2013, there were 5 holders of record of our Class A common stock.

Dividend Policy

Subject to the following paragraphs, we currently intend to continue to pay quarterly cash dividends of approximately $0.30 per share on our Class A common stock.

The declaration, amount and payment of this and any other future dividends on shares of Class A common stock will be at the sole discretion of our board of directors, and we are not obligated under any applicable laws, our governing documents or any contractual agreements with our

existing owners or otherwise to declare or pay any dividends or other distributions (other than the obligations of PBF LLC to make tax distributions to its members). Our board of directors may take into account, among other things, general economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, plans for expansion, tax, legal, regulatory and contractual restrictions and implications, including under our tax receivable agreement and our subsidiaries outstanding debt documents, and such other factors as our board of directors may deem relevant in determining whether to declare or pay any dividend. In addition, we expect that to the extent we declare a dividend for a particular quarter, our cash flow from operations for that quarter will substantially exceed any dividend payment for such period. Because any future declaration or payment of dividends will be at the sole discretion of our board of directors, we do not expect that any such

dividend payments will have a material adverse impact on our liquidity or otherwise limit our ability to fund capital expenditures or otherwise pursue our business strategy over the long-term. Although we have the ability to borrow funds and sell assets to pay future dividends (subject to certain limitations in our ABL Revolving Credit Facility and the PBF Holding Senior Secured Notes), we intend to fund any future dividends out of our cash flow from operations and, as a result, we do not expect to incur any indebtedness or to use the proceeds from equity offerings to fund such payments.

We are a holding company and have no material assets other than our ownership interests of PBF LLC. In order for us to pay any dividends, we will need to cause PBF LLC to make distributions to us and the holders of PBF LLC Series A Units, and PBF LLC will need to cause PBF Holding to make distributions to it, in an amount sufficient to cover cash dividends, if any, declared by us. PBF Holding is generally prohibited under Delaware law from making a distribution to a member to the extent that, at the time of the distribution, after giving effect to the distribution, liabilities of the limited liability company (with certain exceptions) exceed the fair value of its assets. As a result, PBF LLC may be unable to obtain cash from PBF Holding to satisfy our obligations and make payments to our stockholders, if any. If PBF LLC makes such distributions to us, the holders of PBF LLC Series A Units will also be entitled to receive distributions pro rata in accordance with the number of units held by them and us.

The ability of PBF Holding to pay dividends and make distributions to PBF LLC is, and in the future may be, limited by covenants in our ABL Revolving Credit Facility, the PBF Holding Senior Secured Notes and other debt instruments. Subject to certain exceptions, our ABL Revolving Credit Facility and the indenture governing the PBF Holding Senior Secured Notes prohibit PBF Holding from making distributions to PBF LLC if certain defaults exist. In addition, both the indenture and our ABL Revolving Credit Facility contain additional restrictions limiting PBF Holding s ability to make distributions to PBF LLC. Subject to certain exceptions, the restricted payment covenant under the indenture restricts PBF Holding from making cash distributions unless its fixed charge coverage ratio, as defined in the indenture, is at least 2.0 to 1.0 after giving pro forma effect to such distributions and such cash distributions do not exceed an amount equal to the aggregate net equity proceeds received by it (either as a result of certain capital contributions or from the sale of certain equity or debt securities) plus 50% of its consolidated net income (or less 100% of consolidated net loss) which is defined to exclude certain non-cash charges, such as impairment charges, plus certain other items. Two important exceptions to the foregoing are (i) a permission to pay up to the greater of $100.0 million and 1% of PBF Holding s total assets and (ii) a permission to pay an additional $200.0 million subject to compliance with a total debt ratio of 2 to 1. Our ABL Revolving Credit Facility generally restricts PBF Holding s ability to make cash distributions if (x) the aggregate amount of such distributions exceeds the then existing available amount basket (as defined by the ABL Revolving Credit Facility) and (y) before and after giving effect to any such distribution, (a) it fails to have pro forma excess availability under the facility greater than an amount equal to 17.5% of the lesser of (1) the then existing borrowing base and (2) the then current aggregate revolving commitment amount, which as of March 31, 2013 was $1.575 billion or (b) it fails to maintain on a pro forma basis a fixed charge coverage ratio, as defined by the ABL Revolving Credit Facility, of at least 1.1 to 1.0. As a result, we cannot assure you that PBF Holding will be able to make distributions to PBF LLC in order for PBF LLC to make distributions to us. If that is the case, it is unlikely that we will be able to declare dividends as contemplated herein.

Based upon our operating results for the year ended December 31, 2012, PBF Holding would have been permitted under its ABL Revolving Credit Facility and indenture to pay distributions to PBF LLC so that PBF LLC could make distributions to its members, including us, in amounts sufficient to enable us to pay a quarterly dividend at the rate specified above. The ability of PBF Holding to comply with the foregoing limitations and restrictions is, to a significant degree, subject to its operating results, which is dependent on a number of factors outside of our control. As a result, we cannot assure you that we will be able to declare dividends as contemplated herein. See Risk Factors Risks Related to Our Organizational Structure and Class A Common Stock We cannot assure you that we will continue to declare dividends or have the available cash to make dividend payments.

Table of Contents

We did not pay any dividends on our Class A common stock during 2012.

PBF LLC made pre-IPO cash distributions to its members in the amount of $161.0 million during 2012. During the three months ended March 31, 2013, PBF Holding paid $33.0 million in distributions to PBF LLC. PBF LLC used $29.0 million of this amount ($0.30 per unit) to make a distribution to its members, of which $7.1 million was distributed to PBF Energy and the balance was distributed to its other members. PBF Energy used this $7.1 million to pay equivalent cash dividends of $0.30 per share of Class A common stock on March 15, 2013. PBF LLC used the remaining $4.0 million from PBF Holding s distribution to make a tax distribution to its members, with $17,000 distributed to PBF Energy, on account of PBF LLC s 2012 taxable income for pre-IPO and post-IPO periods that was not subject to tax distributions for 2012.

In addition, subsequent to March 31, 2013, PBF Holding made aggregate distributions to PBF LLC of $123.1 million. PBF LLC, in turn, (a) distributed $94.1 million to its members (PBF Energy s share of such distributions was $19.2 million) on account of tax withholding obligations and tax distributions related to periods prior to the date hereof, including the pre-IPO period from January 1, 2012 to December 17, 2012, and (b) declared a distribution to its members of $29.0 million ($0.30 per unit) payable on June 7, 2013, of which $7.1 million will be paid to PBF Energy. PBF Energy will use this $7.1 million to pay its previously declared equivalent cash dividend of $0.30 per share of Class A common stock, payable on June 7, 2013.

PBF LLC will continue to make tax distributions to its members in accordance with its amended and restated limited liability company agreement.

Assuming approximately 96,588,561 PBF LLC Series A Units and PBF LLC Series C Units outstanding immediately following the offering, the aggregate annual distributions which are anticipated to be required to be made by PBF Holding to PBF LLC, such that PBF LLC may make an equivalent distribution to its members (including PBF Energy) in order for PBF Energy to pay the anticipated $0.30 per quarter cash dividend on its Class A common stock would be approximately $115.9 million. If PBF Energy had paid an equivalent $0.30 per share quarterly cash dividend on its Class A common stock during the year ended December 31, 2012, this would have represented the equivalent of approximately 11.1% of its Adjusted EBITDA for such period. As of December 31, 2012, PBF Holding had cash and cash equivalents of $285.9 million and approximately $313.3 million of unused borrowing availability under its ABL Revolving Credit Facility to fund its operations, if necessary. Accordingly, as of December 31, 2012, PBF Holding had sufficient cash and cash equivalents available to it to make distributions to PBF LLC, in order for PBF LLC to make pro rata distributions to its members, including PBF Energy, necessary to fund in excess of one year s cash dividend payments by PBF Energy. We believe our and our subsidiaries available cash and cash equivalents, other sources of liquidity to operate our business and operating performance provides us with a reasonable basis for our assessment that we can support our intended dividend policy.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and cash equivalents and total capitalization as of March 31, 2013:

- on an actual basis;
- on an as adjusted basis to reflect aggregate distributions of $123.1 million made by PBF Holding to PBF LLC, which in turn distributed $26.3 million to PBF Energy (of which $7.1 million will be used to pay its previously declared cash dividend of $0.30 per share of Class A common stock, payable on June 7, 2013) and $96.8 million to its other members. The effects of these distributions and dividends would decrease cash and cash equivalents by $103.9 million, decrease retained earnings by $7.1 million and decrease noncontrolling interest by $96.8 million; and
- on a pro forma basis for this offering and the pro forma adjustments set forth under Unaudited Pro Forma Consolidated Financial Statements and the related notes thereto (assuming the underwriters do not exercise their option to purchase any additional shares).

This information should be read in conjunction with sections entitled Prospectus Summary Our Corporate Structure and Initial Public Offering and Summary Historical and Pro Forma Financial and Other Data, Unaudited Pro Forma Consolidated Financial Statements and Description of Capital Stock included elsewhere in this prospectus, as well as Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, and the historical condensed consolidated financial statements and related notes thereto included in our March 31, 2013 Form 10-Q, which are incorporated by reference in this prospectus.

	As of March 31, 2013		
	Actual	As Adjusted	Pro Forma
Cash and cash equivalents	$ 404,088	$ 300,211	$ 300,211
Debt:			
Long-term debt (including current portion)[1]	727,548	727,548	727,548
Equity:			
Class A common stock, par value $0.001 per share, 1,000,000,000 shares authorized, 23,613,835 shares issued and outstanding on a historical basis, and 39,563,835 shares issued and outstanding on a pro forma basis	24	24	40
Class B common stock, par value $0.001 per share, 1,000,000 shares authorized, 41 shares issued and outstanding on a historical basis, and 41 shares issued and outstanding on a pro forma basis			
Preferred stock, par value $0.001 per share, 100,000,000 shares authorized, none issued and outstanding on a historical or pro forma basis			
Additional paid-in capital	418,322	418,322	654,017

The adjustment shown in the shareholders equity column of the reconciliation represents the reduction from fair value to the depreciated historical cost basis.

The adjustment shown in the net income column of the reconciliation represents:

The reversal of the unrealized gains (losses) under IFRS-EU on investments in real estate, the difference in realized gains (losses) on disposed real estate reflecting different carrying

values for both investment real estate and real estate held for own use under IFRS-EU; and

The annual depreciation charge on investment property under US GAAP and the difference in depreciation charge on property held for own use.

d. Financial assets

A number of differences still exist between IFRS-EU and US GAAP. These differences can be summarized as follows:

Write offs on impaired debt instruments can be partially or fully reversed under IFRS-EU if the value of the impaired assets increases. Such reversals are not allowed under US GAAP. Under IFRS-EU certain mortgage loan securitizations of AEGON The Netherlands have been derecognized and realized gains have been reported, while for US GAAP these mortgage loans are recognized on the balance sheet.

Some assets are reported as available-for-sale financial assets under IFRS-EU, while US GAAP requires the equity method of accounting.

Additional impairments have been recorded for US GAAP. For securities that are in an unrealized loss position due to increases in the risk free interest rate or general widening of credit spreads, AEGON looks to whether the particular asset does not fit AEGON s long term investment strategy and to specific programs at the balance sheet date that may result in future sales of assets. If a particular asset does not fit AEGON s long-term investment strategy and is in an unrealized loss position due solely to interest rate changes, the security has been impaired to the fair value under US GAAP. For programs that may result in future sales, estimates are performed to determine the amount of loss and which securities that loss is attributable to. Such impairments would not be required under IFRS-EU. For securities not impaired under US GAAP, AEGON has the intent and ability to hold these securities until recovery or maturity.

e. Derivatives

Derivatives are measured at fair value under both IFRS-EU and US GAAP.

The adjustment shown in the shareholders equity column of the reconciliation represents transactions that are accounted for as derivatives under IFRS-EU and not under US GAAP.

The adjustment shown in the net income column of the reconciliation represents the effect of different starting dates for certain hedge transactions. Under IFRS-EU these transactions were designated retrospectively and under US GAAP these transactions were designated at the time the formal FAS 133 documentation requirements were established.

f. Insurance and investment contracts

IFRS-EU

Refer to Note 18.2 of the consolidated financial statements in the 2005 Form 20-F for a discussion of the accounting for technical reserves under IFRS-EU.

US GAAP

For AEGON Americas all life insurance liabilities on an IFRS-EU basis are determined following US GAAP as these local accounting principles were followed previously for Dutch Accounting Principles (DAP). Therefore, no reconciling item exists for AEGON Americas.

The adjustment in the shareholders equity column of the reconciliation represents the effect of different models used in calculating insurance liabilities under US GAAP for the Netherlands and the United Kingdom.

Under US GAAP the technical reserves for traditional life insurance contracts are computed using the net level premium method with investment yields, mortality, lapses and expenses based on historical assumptions and include a provision for adverse deviation. For universal life contracts and investment type contracts (annuities) the technical reserves are equal to the policyholder account balances at the balance sheet date. The technical reserve in the United Kingdom is reduced to equal the contractholder balance. The technical reserve for fixed annuities, guaranteed investment contracts and funding agreements is the same as under IFRS-EU.

Table of Contents

For AEGON UK, investment contracts without discretionary participation features are recognized using a funded value for IFRS-EU and a nominal value for US GAAP. Furthermore, profits on reinsurance contracts are recognized directly in net income under IFRS-EU and deferred and amortized under US GAAP.

For AEGON The Netherlands, traditional life and universal life type contracts, the insurance liabilities under IFRS-EU are based on current assumptions for longevity and future administration expenses. Furthermore, DPAC is amortized on a straight line basis over the duration of the contracts. Under US GAAP traditional life contract liabilities are adjusted using historical assumptions and a deferred revenue liability is established. For universal life type contracts the liabilities for US GAAP are adjusted to the policyholder account balance and an unearned revenue liability is established. For traditional limited pay products a deferred profit liability is established.

In various countries products are sold that contain minimum guarantees. For these products the regular technical reserve is recognized under technical reserves with investments for account of policyholders. The liabilities for life insurance includes liabilities for guaranteed minimum benefits related to contracts where the policyholder otherwise bears the investment risk. The valuation of these guarantees under IFRS-EU is the same as under Statement of Position (SOP 03-1) Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts for US GAAP, with the exception of the guarantees on the group pension contracts in the Netherlands. The minimum interest guarantees on group pension contracts in the Netherlands are given for nominal benefits, based on the 3% or 4% actuarial interest rate, after retirement of the employees. Due to the nature of the product, these guarantees have a long-term horizon of about 30 to 60 years. Under IFRS-EU the liability is measured by applying the accrual method based on pricing assumptions less actual deductions. Under US GAAP an additional annuitization benefit liability is set up in accordance with SOP 03-1.

Under IFRS-EU a charge to shareholders equity is recorded in connection with shadow loss recognition to the extent that a loss recognition charge to the income statements would have been recognized when unrealized results would have been realized. The reinvestment return assumption in the IFRS-EU shadow loss recognition calculation is based on current market swap rates. Under US GAAP shadow loss recognition is calculated using reinvestment return assumptions based on management best estimate.

SOP 03-01 covers the reserving for mortality on universal life contracts and for guaranteed living and death benefits on variable annuity and variable life contracts. The implementation mainly changed the timing of the recognition of mortality profits in earnings. The liability for guaranteed living and death benefits on variable annuity and variable life contracts in the United States is the same as described for IFRS-EU.

g. Pensions and other post-retirement benefits

IFRS-EU

For defined benefit plans, a liability is recognized for the excess of the defined benefit obligation over the fair value of the plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. However, actuarial gains and losses that occurred before the transition to IFRS-EU on January 1, 2004 are not reflected in the measurement of the liability as they were recognized on transition to IFRS-EU.

Some countries issued group life insurance policies covering own employee benefit obligations. These policies are generally at market-consistent terms and subject to policyholder protection legislation. However, the policies are not recognized in the consolidated financial statements as they do not meet the definition of a liability. The employee benefit obligation is therefore considered unfunded. The assets held by the country to cover the benefits payable under the

eliminated contract do not qualify as plan assets, but are classified as investments.

US GAAP

US GAAP Statement of Financial Accounting Standard 87 *Employees Accounting for Pensions* (SFAS 87), is applied to the pension plans of the Group. SFAS 87 calculations require several assumptions, including future performance of financial markets, future composition of the work force and best estimates of long-term actuarial assumptions. The expected return on plan assets is calculated using a moving average for the plan assets. In a period of market decline, such as recently experienced, this moving average is higher than the fair value of the assets. The difference between the expected return reflected in the income statement and the actual return on the assets in a certain year is deferred. Deferred gains or losses are amortized to the income statement applying a corridor approach. The corridor is defined as 10% of the greater of the moving average value of the plan assets or the projected benefit obligation. To the extent that the prepaid pension costs at the beginning of the year exceed the moving average asset value less the pension benefit obligation by more than the 10% corridor, the excess is amortized over the employees average future years of service (approximately seven years). The assumptions are reviewed on an annual basis and changes are made for the following year, if required.

The adjustment in the shareholders equity column of the reconciliation represents the cumulative unrecognized actuarial gains and losses at January 1, 2004 that were, as part of the conversion to IFRS-EU, directly recognized in equity. For US GAAP, the unrecognized actuarial gains and losses at January 1, 2004 continued to be capitalized.

Table of Contents

The amount in reconciliation in the net income column represents the difference between the pension expenses on SFAS 87 basis including the amortization of the cumulative actuarial gains and losses outside the corridor and the pension expenses based on IAS 19 *Employee benefits* (IAS 19) taking into account the amortization of the cumulative actuarial gains and losses outside the corridor since January 1, 2004. Furthermore, it includes the different treatment related to assets held by country units that do not qualify as plan assets but are classified as investments. As a result the direct income on these investments is included in net income and the expected return on plan assets is not taken into account for the determination of the pension expenses.

h. Other equity instruments

IFRS-EU

As of June 30, 2006 other equity instruments comprise junior perpetual capital securities amounting to EUR 3,208 million, perpetual cumulative subordinated bonds of EUR 567 million and stock options amounting to EUR 7 million.

Under IFRS-EU the junior perpetual capital securities, as well as perpetual cumulative subordinated bonds, are classified as equity instruments and are valued at face value. In the consolidated balance sheet these instruments are shown as a separate component of group equity and are not part of shareholders equity. Accrued coupons are charged to retained earnings within shareholders equity.

US GAAP

Under US GAAP the junior perpetual capital securities, as well as perpetual cumulative subordinated bonds, are treated as debt instruments. Interest charges, based on the effective interest rate, are included in net income.

The adjustment in the net income column of the reconciliation represents the interest charges for the respective years.

i. Balance of other items

Certain items are recorded differently or in different periods on the two bases of accounting.

j. Tax

Reflects taxation on reconciling items between IFRS-EU and US GAAP and includes differences in tax-treatment between IFRS-EU and US GAAP.

1.9 Information related to Transamerica Finance Corporation (TFC)

AEGON has fully and unconditionally guaranteed all of the outstanding public indebtedness of TFC, a wholly owned subsidiary of AEGON. The guarantees were issued on January 14, 2004. The following condensed consolidating financial information presents the condensed balance sheets, condensed income statements and condensed cash flow statements of (i) AEGON NV (parent company only), (ii) TFC, (iii) other subsidiaries, (iv) the eliminations necessary to arrive at the information for AEGON on a consolidated basis and (v) the total. The condensed consolidating balance sheets are shown as of June 30, 2006 and December 31, 2005 and the condensed consolidating income statements and condensed cash flow statements are shown for the six months ended June 30, 2006 and 2005. The information is prepared in accordance with IFRS-EU and accompanied by a reconciliation to US GAAP.

The AEGON NV parent company only column in this condensed consolidating financial information presents investments in subsidiaries under the equity method of accounting. The TFC column in this condensed consolidating financial information presents the individual line items for TFC. In the AEGON financial statements, TFC is reported as a component of Holdings and other activities, which includes additional parent company interest charges.

A further description of the adjustments in the reconciliation from IFRS-EU to US GAAP can be found in Item 1 note 8.

Table of Contents

The condensed consolidating balance sheets as at June 30, 2006 and December 31, 2005 are shown below:

As at June 30, 2006 (unaudited)

amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi- Nations	Total
Investments general account			137,220	(19)	137,201
Investments for account of policyholders			124,943	(37)	124,906
Investments in associates			469		469
Group companies and loans	22,500			(22,500)	
Other assets and receivables	6,089	552	37,225	(7,962)	35,904
Total assets	**28,589**	**552**	**299,857**	**(30,518)**	**298,480**
Shareholders equity	17,334	6	15,658	(15,664)	17,334
Other equity instruments	3,775		7		3,782
Minority interest	0		15		15
Group equity	21,109	6	15,680	(15,664)	21,131
Trust pass-through securities			405		405
Subordinated borrowings	268				268
Insurance contracts general account			89,755		89,755
Insurance contracts for account of policyholders			68,093		68,093
Investment contracts general account			37,526		37,526
Investment contracts for account of policyholders			58,277		58,277
Loans from group companies	3,384		6,892	(10,276)	
Other liabilities	3,828	546	23,229	(4,578)	23,025
Total equity and liabilities	**28,589**	**552**	**299,857**	**(30,518)**	**298,480**
Reconciliation to US GAAP:					
Shareholders equity in accordance with IFRS-EU	**17,334**	**6**	**15,658**	**(15,664)**	**17,334**
Adjustments for:					
Goodwill			2,854		2,854
Deferred expenses / VOBA			190		190
Real estate			(1,233)		(1,233)
Financial assets			(55)		(55)
Derivatives			64		64
Insurance and investment contracts			40		40
Pensions and other post-employment benefits			1,060		1,060
Other equity instruments	165				165
Balance of other items	(15)		(95)		(110)
Tax	(44)		(39)		(83)
TFC and Other Subsidiaries	2,786			(2,786)	
Shareholders equity in accordance with US GAAP	**20,226**	**6**	**18,444**	**(18,450)**	**20,226**

30

Table of Contents

As at December 31, 2005

amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi-Nations	Total
Investments general account	72		146,031	(28)	146,075
Investments for account of policyholders			127,583	(36)	127,547
Investments in associates			542		542
Group companies and loans	24,784		441	(25,225)	
Other assets and receivables	6,648	615	37,404	(7,616)	37,051
Total assets	**31,504**	**615**	**312,001**	**(32,905)**	**311,215**
Shareholders equity	19,276	14	17,575	(17,589)	19,276
Other equity instruments	3,379				3,379
Minority interest	0		15		15
Group equity	22,655	14	17,590	(17,589)	22,670
Trust pass-through securities			437		437
Subordinated borrowings	284				284
Insurance contracts general account			95,690		95,690
Insurance contracts for account of policyholders			70,280		70,280
Investment contracts general account			38,842		38,842
Investment contracts for account of policyholders			58,724		58,724
Loans from group companies	3,889		7,187	(11,076)	
Other liabilities	4,676	601	23,251	(4,240)	24,288
Total equity and liabilities	**31,504**	**615**	**312,001**	**(32,905)**	**311,215**
Reconciliation to US GAAP:					
Shareholders equity in accordance with IFRS-EU	**19,276**	**14**	**17,575**	**(17,589)**	**19,276**
Adjustments for:					
Goodwill			2,992		2,992
Deferred expenses / VOBA			235		235
Real estate			(1,109)		(1,109)
Financial assets			(77)		(77)
Derivatives			87		87
Insurance and investment contracts			669		669
Pensions and other post-employment benefits			1,268		1,268
Other equity instruments	12				12
Balance of other items	22		(134)		(112)
Tax	(10)		(318)		(328)
TFC and Other Subsidiaries	3,613			(3,613)	
Shareholders equity in accordance with US GAAP	**22,913**	**14**	**21,188**	**(21,202)**	**22,913**

31

Table of Contents

The condensed consolidating income statements for the six months ended June 30, 2006 and 2005:

Six months ended June 30, 2006 (unaudited)

amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi- nations	Total
Income					
Total revenues	1,498	14	17,214	(1,268)	17,458
Income from reinsurance ceded			776		776
Fair value and foreign exchange gains	38		476	(10)	504
Total gains on investments			2,638	2	2,640
Other income			10		10
Total income	**1,536**	**14**	**21,114**	**(1,276)**	**21,388**
Charges					
Benefits and expenses	42	25	17,050		17,117
Fair value and foreign exchange losses	(19)		144		125
Total losses on investments and impairment charges	41		2,294		2,335
Interest charges and related fees	153		83	(35)	201
Other charges			1		1
Total charges	**217**	**25**	**19,572**	**(35)**	**19,779**
Share in profit/(loss) of associates			13		13
Income before tax	**1,319**	**(11)**	**1,555**	**(1,241)**	**1,622**
Income tax	(25)	4	(307)		(328)
Minority interest					
NET INCOME	**1,294**	**(7)**	**1,248**	**(1,241)**	**1,294**
Reconciliation to US GAAP					
Net income determined in accordance with IFRS-EU	**1,294**	**(7)**	**1,248**	**(1,241)**	**1,294**
Adjustments for:					
Goodwill					
Deferred expenses / VOBA			6		6
Real estate			(123)		(123)
Financial assets			(206)		(206)
Derivatives			(26)		(26)
Insurance and investment contracts			(72)		(72)
Pensions and other post-employment benefits			(59)		(59)
Other equity instruments	(94)				(94)
Balance of other items	(37)		45		8
Tax	39		127		166
Cumulative effect of accounting changes					
TFC and Other Subsidiaries	(308)			308	
Net income in accordance with US GAAP	**894**	**(7)**	**940**	**(933)**	**894**

32

Table of Contents

Six months ended June 30, 2005 (unaudited)

amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi- nations	Total
Income					
Total revenues	1,587	40	14,567	(1,368)	14,826
Income from reinsurance ceded			828		828
Fair value and foreign exchange gains	102		109	1	212
Total gains on investments			3,980	(3)	3,977
Other income			176		176
Total income	**1,689**	**40**	**19,660**	**(1,370)**	**20,019**
Charges					
Benefits and expenses	35	54	17,499		17,588
Fair value and foreign exchange losses	103		134		237
Total losses on investments and impairment charges	6		16		22
Interest charges and related fees	127		93	(10)	210
Other charges					
Total charges	**271**	**54**	**17,742**	**(10)**	**18,057**
Share in profit/(loss) of associates			14		14
Income before tax	**1,418**	**(14)**	**1,932**	**(1,360)**	**1,976**
Income tax	10	8	(567)		(549)
Minority interest			1		1
NET INCOME	**1,428**	**(6)**	**1,366**	**(1,360)**	**1,428**
Reconciliation to US GAAP					
Net income determined in accordance with IFRS-EU	**1,428**	**(6)**	**1,366**	**(1,360)**	**1,428**
Adjustments for:					
Goodwill					
Deferred expenses / VOBA			82		82
Real estate			(25)		(25)
Financial assets			(52)		(52)
Derivatives			(34)		(34)
Insurance and investment contracts			(360)		(360)
Pensions and other post-employment benefits			(89)		(89)
Other equity instruments	(91)				(91)
Balance of other items	(2)		122		120
Tax	20		157		177
Cumulative effect of accounting changes	(5)				(5)
TFC and Other Subsidiaries	(199)			199	
Net income in accordance with US GAAP	**1,151**	**(6)**	**1,167**	**(1,161)**	**1,151**

Table of Contents

The condensed consolidating cash flow statements for the six months ended June 30, 2006 and 2005 are presented below:

Six months ended June 30, 2006 (unaudited)

amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi-Nations	Total
Net cash flow from operating activities	**(239)**	**(5)**	**4,487**		**4,243**
Cash flow from investing activities					
Purchase of investments	6		(32,224)		(32,218)
Proceeds from sale and maturity of investments			28,791		28,791
Acquisition and divestiture of a subsidiary			16		16
Other items	273	10	(178)		105
Net cash flow from investing activities	**279**	**10**	**(3,595)**		**(3,306)**
Cash flow from financing activities					
Proceeds from borrowings and equity instruments	697		140		837
Purchase and sale of treasury shares	(96)				(96)
Dividends paid	(263)				(263)
Coupons on perpetuals	(90)				(90)
Repayments of borrowings and equity instruments	(646)		(58)		(704)
Other items	(93)		(30)		(123)
Net cash flow from financing activities	**(491)**		**52**		**(439)**
Change in cash and cash equivalents	**(451)**	**5**	**944**		**498**

34

Table of Contents

Six months ended June 30, 2005 (unaudited)

amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi- Nations	Total
Net cash flow from operating activities	**163**	**(3)**	**1,679**		**1,839**
Cash flow from investing activities					
Purchase of investments			(33,437)		(33,437)
Proceeds from sale and maturity of investments			31,571		31,571
Acquisition and divestiture of a subsidiary		151	(87)	(108)	(44)
Other items	680	4	(546)		138
Net cash flow from investing activities	**680**	**155**	**(2,499)**	**(108)**	**(1,772)**
Cash flow from financing activities					
Proceeds from borrowings and equity instruments	820		572		1,392
Purchase and sale of treasury shares	72				72
Dividends paid	(169)				(169)
Coupons on perpetuals	(87)				(87)
Repayments of borrowings and equity instruments	(292)	(122)	(912)	108	(1,218)
Other items	(3)		(15)		(18)
Net cash flow from investing activities	**341**	**(122)**	**(355)**	**108**	**(28)**
Change in cash and cash equivalents	**1,184**	**30**	**(1,175)**		**39**

Table of Contents

1.10 Subsequent Events

On July 7, 2006 AEGON and Ranbaxy Promoter Group announced that a memorandum of understanding has been signed to jointly enter the insurance and asset management markets in India. The partnership will be implemented by AEGON and Religare, a Ranbaxy Promoter Group company. Entering the Indian market continues AEGON s strategy of expanding into countries that offer long-term growth opportunities for insurance and investment products. India has long been identified as one of AEGON s target markets given its sizeable population and rapidly developing economy, the relatively low penetration level of insurance in the country, and the continued strong growth rates projected for the insurance sector in coming years. AEGON and Ranbaxy Promoter Group expect to announce a transaction later this year.

In July 2006 AEGON completed the offering of EUR 200 million in perpetual capital securities. Additionally the issue of USD 500 million of perpetual capital securities, offered in June 2006, was increased by USD 50 million in July 2006. Proceeds of both issues will be used for general corporate purposes including the retiring of senior debt.

On July 9, 2006 AEGON announced that the Honorable Clifford M. Sobel resigned from the Supervisory Board of AEGON N.V., following his appointment as the United States Ambassador to Brazil.

On August 10, 2006 AEGON N.V. declared an interim dividend for the fiscal year 2006, giving the shareholders the choice to receive the interim dividend either in cash or in stock. The interim dividend in cash is EUR 0.24 per common share of EUR 0.12 par value and is payable as of September 21, 2006. Shareholders who elected an interim dividend in AEGON shares will receive one new AEGON common share for every 62 common shares. The stock fraction has been based on the average share price on Euronext Amsterdam over the period from September 11, 2006 through September 15, 2006, and represents a 5.6% lower value than the cash dividend.

On September 15, 2006 AEGON N.V. announced the buy-back of AEGON N.V. shares. The purpose of the buy-back is to neutralize the dilution effect of the interim dividend in shares. AEGON N.V. will repurchase 11.6 million common shares. The buy-back will be completed before year-end 2006.

On September 21, 2006 AEGON announced that AEGON-CNOOC Life Insurance Company Ltd., the 50/50 joint venture of AEGON N.V. with the Chinese National Offshore Oil Corporation (CNOOC), officially opened its Shandong branch in Jinan.

Table of Contents

ITEM 2: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

2.1 Introduction

AEGON is committed to providing information on key factors that drive its business and affect its financial condition, results and value. Our disclosure practices have been developed over many years with due consideration of the needs and requirements of our stakeholders, including regulators, investors and research analysts. We have substantive supplemental information in our annual and quarterly accounts to provide transparency of our financial results. We have provided insight into our critical accounting policies and the methodologies we apply to manage our risks. For a discussion of critical accounting policies see Application of Critical Accounting Policies IFRS-EU and Application of Critical Accounting Policies US GAAP . For a discussion of our risk management methodologies see Item 11, Quantitative and Qualitative Disclosure About Market Risk in the 2005 Form 20-F.

2.2 Application of Critical Accounting Policies IFRS-EU

The Operating and Financial Review and Prospects are based upon AEGON s consolidated financial statements, which have been prepared in accordance with IFRS-EU. Application of the accounting policies in the preparation of the financial statements requires management to employ their judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from these estimates. Senior management reviews these judgments frequently and an understanding of these judgments may enhance the reader s understanding of AEGON s financial statements. We have summarized in the following sections the IFRS-EU accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment.

i Valuation of assets and liabilities arising from life insurance contracts

General

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management s current estimates of future cash flows. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognized in the income statement.

Some insurance contracts without a guaranteed or fixed account term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability and measured in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets, respectively, and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability.

37

Table of Contents

Actuarial assumptions

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further mortality improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are either prescribed by the local regulator or based on management s future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States and Canada is the annual net long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions as to the net long-term growth rate are made after considering the net effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Credible own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

Reserve for guaranteed minimum benefits

In the United States, a guaranteed minimum withdrawal benefit is offered directly on some variable annuity products AEGON issues and is also assumed from a ceding company. This benefit guarantees a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable insurance contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature provides for minimum payments if the contractholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value. These benefits subject the company to equity market risk, since poor market performance will cause the guaranteed benefits to exceed the policyholder account value and thus become in the money.

In Canada, variable products sold are known as Segregated Funds . Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits). The initial guarantee period is ten years. The ten-year period may be reset at the contractholder s option for certain products to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased at management s discretion.

Separate account group contracts of AEGON The Netherlands are large group contracts that have an individually determined asset investment underlying the pension contract. The guarantee given is that the profit sharing is the minimum of 0% or the realized return (on an amortized cost basis), both corrected for the technical interest of either 3% or 4%. If there is a negative profit sharing, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed.

For AEGON The Netherlands, within individual unit-linked policies, the sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (of 3% or 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

Table of Contents

The following table provides information on the liabilities for guarantees for minimum benefits that are valued separately from the host contract as bifurcated embedded derivatives:

amounts in million EUR	United States[1]	Canada[1]	The Netherlands[2]	2006 Total	United States[1]	Canada[1]	The Netherlands[2]	2005 Total
At January 1	(28)	586	378	936	(22)	441	229	648
Incurred guarantee benefits	(26)	(37)	(235)	(298)	4	69	79	152
Paid guarantee benefits		4		4		8		8
Net exchange differences	3	(17)		(14)	(2)	50		48
At June 30	(51)	536	143	628	(20)	568	308	856

amounts in million EUR, at June 30	United States[1]	Canada[1]	The Netherlands[2]	2006 Total	United States[1]	Canada[1]	The Netherlands[2]	2005 Total
Account value	1,870	3,487	5,616	10,973	919	3,251	4,872	9,042
Net amount at risk	5	790	66	861	2	893	93	988

[1] Guaranteed minimum accumulation and withdrawal benefits

[2] Fund plan and unit-linked guarantees

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts:

amounts in million EUR	GMDB[1]	GMIB[2]	GMAB[3]	2006 Total	GMDB[1]	GMIB[2]	GMAB[3]	2005 Total
At January 1	126	121	109	356	100	59	96	255
Incurred guarantee benefits	21	6	5	32	30	38	6	74
Paid guarantee benefits	(16)			(16)	(23)			(23)
Net exchange differences	(9)	(9)		(18)	13	10		23
At June 30	122	118	114	354	120	107	102	329

amounts in million EUR, at June 30	GMDB[1]	GMIB[2]	GMAB[3]	2006 Total	GMDB[1]	GMIB[2]	GMAB[3]	2005 Total
Account value	22,951	8,568	6,312	37,831	23,767	8,939	6,353	39,059
	2,259	355	41	2,655	2,775	405	137	3,317

Net amount at risk						
Average attained age of contractholders	66	64	NR	66	64	NR

[1] Guaranteed minimum death benefit in the United States
[2] Guaranteed minimum income benefit in the United States
[3] Guaranteed minimum accumulation benefit in the Netherlands

Table of Contents

Amortization of Deferred Policy Acquisition Cost, including Value of Business Acquired

At June 30, 2006, the reversion to the mean assumptions for variable products, primarily variable annuities, were as follows in the United States: gross long-term equity growth rate of 9% (2005: 9%); gross short-term growth rate of 6.25% (2005: 6%); gross short- and long-term fixed security growth rate of 6% (2005: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2005: 3.5%). For Canada, these assumptions, at June 30, 2006, were as follows: gross long-term equity growth rate of 9% (2005: 9%); and gross short-term growth rate of 11% (2005: 9.75%). For both countries the reversion period for the short-term rate is five years.

The movement in DPAC over the first six months of 2006 can be summarized and compared to the first six months of 2005 as follows:

amounts in million EUR	**Six months ended June 30,**	
	2006	**2005**
At January 1	10,789	8,499
Costs deferred/rebates granted during the year	933	966
Amortization through income statement	(595)	(532)
Shadow accounting adjustments	418	(82)
Net exchange differences	(518)	754
Other movements	5	12
At June 30	11,032	9,617

The movement in VOBA over the first six months of 2006 can be summarized and compared to the first six months of 2005 as follows:

amounts in million EUR	**Six months ended June 30,**	
	2006	**2005**
At January 1	4,396	3,950
Additions	3	1
Acquisitions through business combination	12	44
Amortization / depreciation through income statement	(122)	(116)
Shadow accounting adjustments	150	34
Net exchange differences	(226)	396
Other movements	9	(24)
At June 30	4,222	4,285

Table of Contents

DPAC, VOBA per line of business

amounts in million EUR	June 30, 2006	December 31, 2005
DPAC per line of business		
Traditional life	3,829	3,699
Life for account of policyholders	4,286	4,257
Fixed annuities	598	443
Variable annuities	888	970
Reinsurance	728	685
Accident and health insurance	701	734
General insurance	2	1
	11,032	10,789

amounts in million EUR	June 30, 2006	December 31, 2005
VOBA per line of business		
Traditional life	1,929	1,965
Life for account of policyholders	1,088	1,121
Fixed annuities	144	140
Variable annuities	104	115
Institutional guaranteed products	19	23
Fee off balance sheet products	3	
Reinsurance	742	814
Accident and health insurance	193	218
	4,222	4,396

Table of Contents

ii Fair value of investment contracts

Investment contracts issued by AEGON are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments.

iii Fair value of investments and derivatives determined using valuation techniques

Financial instruments

In the absence of an active market, the fair value of non-quoted investments in financial assets is estimated by using present value or other valuation techniques. For example, the fair value of non-quoted fixed interest debt instruments is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics. For mortgage and other loans originated by the Group interest rates currently being offered for similar loans to borrowers with similar credit ratings are applied. The fair value of floating interest rate debt instruments and assets maturing within a year is assumed to be approximated by their carrying amount.

Financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. The values for OTC derivatives are verified using observed market information, other trades in the market and dealer prices, along with management judgment.

Derivatives embedded in insurance and investment contracts

Certain bifurcated embedded derivatives in insurance and investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) forward curve or the current rates on local government bonds. Market volatility

assumptions for each underlying index are based on observed market implied volatility data or observed market performance. Correlations of market returns across underlying indices are based on actual observed market returns and relationships over a number of years preceding the valuation date. The current risk-free spot rate is used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

42

Table of Contents

iv Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group s assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Group or changes in other facts and circumstances will lead the Group to change its investment decision. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment charge recorded.

Debt instruments

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Factors considered include industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, nationally recognized credit rating declines and a breach of contract.

The amortized cost and fair value of bonds, money market investments and other included in our available-for-sale (AFS) and held to maturity portfolios are as follows as of June 30, 2006:

amounts in million EUR	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
- United States government	3,614	45	(92)	3,567	996	2,571
- Dutch government	2,174	45	(46)	2,173	770	1,403
- Other government	13,401	402	(202)	13,601	6,084	7,515
- Mortgage backed	9,680	57	(214)	9,523	3,924	5,599
- Asset backed	11,412	55	(172)	11,295	5,230	6,065
- Corporate	56,115	1,055	(1,618)	55,552	21,926	33,626
Money market investments	2,906			2,906	2,906	
Other	776	86	(36)	826	663	163
Total	100,078	1,745	(2,380)	99,443	42,499	56,942
Of which held by AEGON USA	75,217	1,171	(1,906)	74,483	31,843	42,640

The following is a description of the unrealized bond losses by sector of AEGON USA.

Unrealized Bond Losses by Sector

AEGON USA regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) nationally recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. Under IFRS-EU, a security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is

considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled.

Table of Contents

The composition by industry categories of bonds in an unrealized loss position held by AEGON USA at June 30, 2006 and December 31, 2005 is presented in the table below. The following unrealized losses consist of 1,431 issuers as of June 30, 2006.

Unrealized losses bonds

	June 30, 2006		December 31, 2005	
amounts in million USD	**Carrying value of instruments with unrealized losses**	**Gross unrealized losses**	**Carrying value of instruments with unrealized losses**	**Gross Unrealized losses**
Asset Backed Securities (ABSs) Aircraft	70	(14)	133	(30)
ABSs CBOs	260	(6)	283	(27)
ABSs Housing related	2,681	(71)	1,940	(38)
ABSs Credit cards	1,597	(35)	1,421	(22)
ABSs Other	2,814	(86)	1,811	(36)
Collateralized mortgage backed securities	6,838	(264)	6,901	(122)
Financial	11,334	(478)	7,846	(171)
Industrial	19,695	(1,028)	12,636	(403)
Utility	4,426	(239)	2,812	(64)
Sovereign exposure	4,297	(162)	2,850	(55)
Total	54,012	(2,383)	38,633	(968)

The information presented above is subject to rapidly changing conditions. As such, AEGON USA expects that the level of securities with overall unrealized losses will fluctuate. The recent volatility of financial market conditions has resulted in increased recognition of both investment gains and losses, as portfolio risks are adjusted through sales and purchases.

As of June 30, 2006, there are USD 1,380 million of gross unrealized gains and USD 2,383 million of gross unrealized losses in the AFS Bonds portfolio. No one issuer represents more than 4% of the total unrealized position. The largest single issuer unrealized loss is USD 85 million and relates to sovereign securities, which contains fixed income positions of investment grade quality.

When AEGON USA has made the decision to sell a security in a loss position as of the balance sheet date, an impairment loss has been recognized to write the book value of the security down to fair value. AEGON USA generally has the intent and ability to hold all other securities in unrealized loss positions to full recovery or maturity. If a particular asset does not fit the company s long-term investment strategy and is in an unrealized loss position due solely to interest rate changes, the security has been impaired to fair value under US GAAP only. Because the company has not made a decision to sell the security and there are no fundamental credit issues, AEGON USA has not impaired these securities under IFRS-EU. In addition for US GAAP, AEGON USA recorded additional impairments of USD 364 million for the six months ended June 30, 2006 due to programs that have been initiated in the company which may result in the future sale of securities in unrealized loss positions.

Asset Backed Securities

ABS Housing related, ABS - Credit cards and ABS - Other:

Asset Backed Securities (ABS) include housing, credit cards, and other asset backed securities. 78% of unrealized losses relate to AAA rated securities, and 90% of unrealized losses relate to securities rated A or higher. The unrealized losses are more a reflection of interest rate

movements than credit related concerns. Where credit events may be impacting the unrealized losses, cash flows are modeled using assumptions for defaults and recoveries as well as including actual experience to date. When models do not indicate full recovery of principal and interest, the securities are impaired to the modeled values. When these models indicate full recovery of principal and interest, AEGON USA does not consider these securities to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Table of Contents

Collateralized Mortgage-Backed Securities

The unrealized loss on collateralized mortgage-backed securities is USD 264 million, of which USD 203 million relates to commercial mortgage-backed securities (CMBS). The fundamentals of the CMBS market are, on average, strong. Aggressive underwriting at the loan level and an unprecedented amount of capital chasing commercial real estate continue to be the themes. Capitalization rates have compressed to historically low levels following the decline in interest rates as well as a compression in risk spread. A spike in interest-only loans coupled with a decrease in the amount of reserves collected highlight the current aggressive state of loan underwriting. The introduction of the 20% and 30% subordinated super senior AAA classes provides an offset to these negative fundamentals. Of the unrealized loss position, 82% is related to AAA rated securities and only 4% of the unrealized loss is invested in securities rated below AA. Most of the below AA exposure that AEGON USA currently holds is in older vintage, seasoned deals. Two issuers in this sector have unrealized losses over USD 20 million. Over USD 52 million of the unrealized losses in this sector relate to a single issuer, LBUBS (Lehman Brothers/UBS). The security contains fixed income positions of investment grade quality. AEGON USA owns USD 988 million of the issuer s debt, of which USD 705 million are AAA rated securities with unrealized losses of USD 36 million. Over USD 16 million of the unrealized losses in this sector relate to FNMA. FNMA also has unrealized losses of 5 million in the ABS Housing related sector and 4 million in the Sovereign sector. AEGON USA owns USD 785 million of FNMA s debt, all of which are AAA rated securities. As the unrealized losses on AEGON USA s collateralized mortgage-backed securities are attributable to interest rate increases and not fundamental credit problems with the issuer or collateral, those investments are not considered by AEGON USA to be impaired as of June 30, 2006.

There are no other individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Financial

Banking, Brokerage, and Financial Other

The fundamentals of the banking sector continue to be solid. It is a high credit quality sector and represents a large portion of the corporate debt market. As a result, the absolute exposure to the banking sector in AEGON USA s portfolio is also large and of high quality. Because of the sector s size, the absolute dollar amount of unrealized losses is large, but the overall market value as a percent of book value on securities in an unrealized loss position is high at 96%. Unrealized losses in the banking sector are not a result of fundamental problems with individual issuers. Banking accounts for the majority of losses in the financial sector. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Insurance

The fundamentals of the insurance sector continue to be solid. It is a high credit quality sector and represents a modest portion of the corporate debt market. The overall market to book ratio on securities in an unrealized loss position is 95%. Unrealized losses in this sector are not a result of fundamental problems with individual issuers; rather it is more a reflection of interest rate movements, general market volatility and duration. AEGON USA has evaluated the near-term prospects of issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Real Estate Investment Trusts (REITs)

The REIT sector continues to perform well as underlying fundamentals remain strong. REITs have benefited from a stable economy, relatively low interest rates, an influx of private equity capital, and high replacement costs (which limits supply) in many urban locations. In addition to improving fundamentals, REIT bonds have some of the most protective covenants in the investment grade market, which has led to bonds being tendered in the event of a merger or acquisition. Private equity firms have been relatively aggressive in acquiring REITs, tendering for REIT senior notes due to restrictive covenants, and refinancing at much lower rates in the CMBS market. The overall market to book ratio on securities in an unrealized loss position is 96%. We expect this trend to continue and fundamentals should continue to be favorable for many of the REIT sub-sectors. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Table of Contents

Industrial

Basic Industries and Capital Goods

The basic and capital goods industries encompass various sub-sectors ranging from aerospace/defense to packaging. The most significant of these are addressed individually. Packaging accounts for 4% of the sector. The packaging sub sector s performance is dependent on the underlying credits, raw material structure and pricing power. Plastic packaging credits that have resins as their major raw material have struggled, due to the fact that resin prices fluctuate with the price of oil. As the cost of the raw materials has dramatically risen, the companies are trying to offset these costs with price increases. In the short term, this lag between increasing raw material costs and increased pricing has hurt margins and profitability. Additionally, high input costs such as oil, energy, and transportation have hurt results. High input costs continued to be a drag on the bottom line and margins until the price increases take effect. With a market to book ratio on securities in an unrealized loss position of 95%, AEGON USA is well positioned in the packaging sector. Half of the gross unrealized losses in this sub sector relate to securities which were purchased at a premium and the current market value approximates or exceeds par.

The environmental sub sector, which accounts for 4% of the basic industries and capital goods sector, has been hurt by high energy and transportation costs. The sector is very sensitive to energy costs, as the majority of the business centers around the collection of waste by fleets of trucks. Price initiatives have been instituted and results for the second quarter were strong as the pricing is catching up to the higher energy costs.

Building products make up 14% of the basic and capital goods industries. The building products sector is highly correlated to the housing market. Fundamentals have dramatically weakened in the homebuilding sector and building product credits have come under technical pressure as interest rates rise and order activity has slowed. The construction machinery industry, which is 7% of the basic industries and capital goods sector, has experienced improving demand due mainly to continued economic expansion. Higher input costs have generally been more than offset by improved pricing and productivity initiatives. Companies within the diversified manufacturing industry have exposure to a wide variety of end-markets. Profitability in this industry tends to track overall industrial production trends which continued to show growth during the first half of 2006. The unrealized losses in the aerospace/defense sub-sector are primarily interest rate related and there are limited fundamental credit issues in the sector. The aerospace/defense sub-sector accounts for 16% of the basic industries and capital goods sector.

While the performance of some of the individual credits and sub sectors was somewhat below expectations, overall, valuations remain largely stable. The overall market to book ratio on securities in an unrealized loss position is 95% for Basic Industry and 96% for capital goods. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Consumer Cyclical

The consumer cyclical sector covers a range of sub-sectors including autos, home construction, lodging, media, and retailers. These sectors include some of the largest credit issuers in the market. As a result, AEGON USA s absolute exposure is large, but the overall market to book ratio is 94% on securities in an unrealized loss position.

The automotive sub sector accounts for approximately 29% of the unrealized loss position. On the strength of progressing restructuring plans (employee buyouts, plant closures, wage negotiations) and buoyed by speculation of asset sales and alliances the auto sector performed ahead of expectations for the first half of 2006. The underlying fundamentals driving sales and earnings performance continue to be pressured as a result of declining Big 3 market share and the negative impact of higher interest rates and gas prices on consumer spending. The lost market share and high raw material costs have impacted suppliers. While consumers continue to purchase vehicles at a healthy rate, the mix is shifting away from higher margin large trucks to lower margin and more fuel efficient vehicles. Both General Motors and Ford Motor Company are looking to new fuel efficient products to boost sales and earnings. The companies have made progress with their respective restructuring plans to modestly improve credit profiles, but the pressure to further improve costs and stabilize market share remains. As a result, analysts expect the sector performance to be driven by weak fundamentals, the economic environment and discussions on labor negotiations and asset sales. For autos, the overall market to book ratio is 93% on securities in an unrealized loss position. As of June 30, 2006, AEGON USA held USD 57 million BB rated and USD 21 million BB- rated debt of Ford Motor Company, which carried unrealized losses of USD 3 million and USD 7 million, respectively. AEGON USA held USD 22 million B rated and USD 66 million BB rated debt of General Motors, which carried unrealized losses of USD 1 million and USD 3 million, respectively. While the market price is suppressed due to the interest rate environment and pressure in the automotive sector, given the restructuring plans and near term adequate liquidity, AEGON USA does not consider these investments to be impaired as of June 30, 2006.

With respect to the other groups, fundamentals have held up relatively well, but a slowing economy and moderating consumer sentiment is likely to weaken results the remainder of the year. Homebuilders, retailers, and gaming companies are starting to show signs of stress as higher interest rates, oil/gas prices, and utility costs are taking their toll on discretionary spending. Lodging continues to perform well as results are tied more closely to business spending than consumer tourism spending. Many of the consumer sectors have been the target of leveraged buyouts and merger and acquisition activity, which could lead to

Table of Contents

credit deterioration. Rising interest rates has clearly been one of the primary drivers of those securities with unrealized losses in this sector. This is particularly true in the homebuilding sector. Fundamentals have weakened due to rising interest rates and weak order activity. In the retail sector, investors have been negatively impacted by increased mergers and acquisitions and leveraged buyout activity.

The overall market to book ratio is 94% on securities in an unrealized loss position. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit-related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Consumer Non-Cyclical

The consumer non-cyclical companies continue to maintain fairly stable credit profiles. Consumer products, food and beverage fundamentals have modestly weakened due to higher input costs and somewhat stagnant pricing. Additionally, shareholder friendly actions and related restructuring have been done at the expense of bondholders. For private placements (which represent 38% of the gross unrealized loss position), the vast majority contain covenants that protect the bondholder from these shareholder friendly actions. Supermarkets have improved same store sales, but operating margins continue to be pressured by a very competitive food retail environment. Pharmaceuticals have had some modest sales and operating margin deterioration due to a number of branded products coming off of patent. In addition, many of the consumer sectors have been the target of leveraged buyouts and merger and acquisition activity, which could lead to significant credit deterioration.

Overall, the sector represents a large portion of the corporate debt market. As a result, AEGON USA s absolute exposure is large and the absolute dollar amount of unrealized losses is also large, but the overall market to book ratio is 95% on all public securities in an unrealized loss position, and 93% on all private securities in an unrealized loss position. The vast majority of the unrealized losses in the consumer non-cyclical sector are not the result of fundamental problems with individual issuers, but is primarily due to increases in interest rates; therefore, AEGON USA does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Technology

The Technology sector is comprised of a broad range of business segments, including Semiconductors, Communications Equipment, IT Services, Data Processing, Computer Hardware, Software, Office Equipment, Electronic Manufacturing Services, and Component Distribution. After a period of seeing modestly improving credit profiles due to stable fundamental trends and strategic de-leveraging, many Technology companies have begun to reverse course and focus more keenly on the interests of shareholders through recapitalization, share repurchase, and dividend initiation. This pressure to deliver attractive returns to equity holders is only increasing as growth across the sector slows over time and trends towards being highly correlated with the Gross Domestic Product, thereby compressing industry valuation multiples. Despite these conditions, balance sheets remain in relatively solid condition and the reaction in bond pricing has been relatively insignificant.

Unrealized losses in the Technology sector are not a result of fundamental problems with individual issuers. The overall market to book ratio on securities in an unrealized loss position is 96%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are primarily due to increases in interest rates (due to the high quality of most Investment Grade holdings), general market volatility, and duration, rather than credit-related concerns. Therefore, AEGON USA does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Transportation

The Transportation segment has seen weakness due to rising fuel costs. The airlines are a material portion of the sector, and their results, although positive, have a negative correlation with fuel costs. In the short-term, the airlines have historically had a difficult time increasing fares to compensate for higher fuel costs. In the longer-term, however, the companies should be able to increase their pricing in order to reflect the cost environment given the consumer demand. Over 50% of the unrealized losses are from the railway sector. However, these unrealized losses, as well as the other unrealized losses in this sector are not a result of fundamental problems with individual issuers; rather it is more a reflection of interest rate movements, general market volatility and duration. The overall market to book ratio on securities in an unrealized loss position is 96%. AEGON USA has evaluated the near-term prospects of issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

Table of Contents

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Communications

Continuing on the trend started in 2005, many companies in the communications sector continue to focus on increasing shareholder returns. This has escalated event risk within the sector and caused many companies to increase financial leverage. Consolidation within the telecom industry has continued into 2006, with the most notable being AT&T s pending acquisition of Bellsouth. Fundamentals also remain challenging, with wire line telecom companies experiencing accelerating line losses due to competition from wireless providers, as well as cable and other voice over internet protocol (VOIP) providers. Media companies are suffering from a tepid advertising environment, with advertising dollars shifting to new forms of media. This has led to lower returns on equity, historically low equity multiples, and poor stock performance. In some cases activist shareholders and private equity firms have forced management to respond by increasing financial leverage, consolidation, or asset divestitures. The net effect is a weaker credit profile for many companies.

AEGON USA is closely monitoring securities such as Charter Communications Inc. and Adelphia Communications where growth rates and accounting issues have pressured the market values. As necessary, these securities have been impaired, and the combined gross unrealized losses on Charter and Adelphia are less than USD 2.5 million. The overall market to book ratio on securities in an unrealized loss position is 94%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit related concerns. Based on the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss, AEGON USA does not consider the remaining book values to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Utility

Electric and Energy

In the aftermath of 2002 s melt-down, the theme for electric utilities, and energy companies as a whole turned to a focus on the basics of good business. Companies focused on optimizing their regulated operations and minimizing the volatility in other areas of their businesses. The industry also focused on strengthening their balance sheets through debt-reduction and maximizing cash flows. During 2005 fundamentals continued to improve, and are generally expected to remain stable through 2006. Looking forward, the most concerning issues on the horizon appear to be continued merger and acquisition activity, growing capital expenditures programs, and an increasingly uncertain regulatory environment driven by rising energy prices. The overall market to book ratio on securities in an unrealized loss position is 94% for Electric and 95% for Energy. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Natural Gas

Pipeline companies have strengthened their credit fundamentals via asset sales, strong cash flows, and renewed strength in select non-regulated business segments. Specifically, those companies with natural gas production units and/or gas processing have enjoyed very strong margins. At the same time, those companies with legacy energy trading books continue to be burdened by these now largely discontinued operations. With respect to capital deployment, pipeline companies are increasingly emphasizing organic growth projects over acquisitions. This has been driven by the higher cost of doing acquisitions in this consolidating sector, as well as the need to develop infrastructure as natural resources are extracted from new regions and basins. The maintenance and replacement of existing energy infrastructure has also been an area of increased investment by pipeline and distribution companies. Acquisition activity that is taking place is focused more on asset sales/purchases, as some industry participants are sharpening their business focus by moving away from the energy/utility conglomerate business model, or focusing their activities on regulated or non-regulated activities, respectively. One area of ongoing and increasing concern is the prospect for leveraged buy-outs within the sector. The overall market to book ratio on securities in an unrealized loss position is 94%. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of June 30, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Table of Contents

Sovereigns

Sovereigns include government issued securities including US treasury, agency and state bonds; 90% of unrealized losses relate to A or higher rated securities. The overall market to book ratio on securities in an unrealized loss position is 96%. There are two issuers with unrealized losses greater than USD 20 million in this sector. Over USD 84 million of the unrealized losses in this sector relate to US Treasuries. AEGON USA owns USD 2.7 billion of the issuer s debt, of which all are AAA rated securities with unrealized losses of USD 84.7 million. Over USD 11 million of the unrealized losses in this sector relate to small business administration (SBA) debt, (SBA also has over USD 10 million of unrealized losses in the ABS Other Sector). AEGON USA owns USD 1.1 billion of the issuer s debt, all of which are AAA rated securities with unrealized losses of 12 million. As the unrealized losses on AEGON USA s sovereign holdings are attributable to interest rate increases, those investments are not considered by AEGON USA to be impaired at June 30, 2006.

There are no other individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Unrealized Loss by Maturity

The table below shows the composition by maturity of all bonds in an unrealized loss position held by AEGON USA at June 30, 2006.

Maturity Level

amounts in million USD	Carrying value of securities with gross unrealized losses	Gross unrealized losses
One year or less	3,589	(43)
Over 1 through 5 years	16,349	(516)
Over 5 through 10 years	18,825	(980)
Over 10 years	15,249	(844)
Total	54,012	(2,383)

Unrealized Loss by Credit Quality

The table below shows the composition by credit quality of bonds in an unrealized loss position held by AEGON USA at June 30, 2006.

amounts in million USD	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Treasury Agency	3,250	(117)
AAA	12,471	(411)
AA	3,854	(171)
A	15,587	(722)
BBB	15,450	(755)
BB	1,924	(99)
B	1,204	(91)
Below B	272	(17)
Total	54,012	(2,383)

Table of Contents

The table below provides the length of time a security has been below cost and the respective unrealized loss at June 30, 2006.

amounts in million USD	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 -12 months	40,138	2,597	(1,625)	(116)
> 12 months	10,474	803	(551)	(91)*
Total	50,612	3,400	(2,176)	(207)

* Of the securities in an unrealized loss position for greater than 12 months, USD 67 million relates to asset backed securities (ABS). AEGON USA monitors individual ABS investments by reviewing monthly or quarterly reports, including cash flows and collateral performance statistics provided by the servicer, external rating agency actions either specific to the security or in general, internal or external research and cash flow modeling. If, based on cash flow modeling, it is determined there is an adverse change in the best estimate of projected cash flow, an impairment is recorded. It is important to note that AEGON USA s determination of fair value does not rely on the current market value of the security. Infrequently traded securities are heavily discounted due to the long duration as well as the uniqueness and illiquidity of the structure. Inefficiencies in the distressed ABS markets often do not give good indication of ultimate fair values. Given these market inefficiencies, market values on structured securities are highly sensitive to any decrease in collateral performance and are slow to recognize any improvement in collateral until closer to the maturity date; therefore, the duration of the unrealized loss is not, in and of itself, indicative of an impairment.

Realized gains and losses on bonds of AEGON USA for the six months ended June 30, 2006:

amounts in million USD	Gross Realized Gains	Gross Realized Losses
Bonds	191	(346)

Gross realized gains include USD 68 million of bond recoveries and gross realized losses include USD 65 million of bond impairments.

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired at June 30, 2006.

Time period	0 -12 months	> 12 months	Total
amounts in million USD			
Bonds	(243)	(38)	(281)

The following list describes securities which represented more than 5% of the USD 281 million of realized losses on sales of fixed maturity securities:

Losses were realized on US Government Securities of USD 74 million. These losses are attributable purely to interest rate movements and the timing of when the securities were bought and sold.

Table of Contents

Impairment losses and recoveries

The composition of AEGON USA s bond impairments losses and recoveries by issuer, according to IFRS-EU, for the six months ended June 30, 2006 are presented in the table below, those above USD 15 million are specifically noted.

Issuer Name	(Impairment) / Recovery in million USD
Impairments:	
Lease Investments Flight Trust	(19)
Other Impairments (25 unique issuers)	(46)
Sub-total	(65)
Recoveries:	
Other Recoveries (35 unique issuers)	68
Sub-total	68
Net Impairments and Recoveries	3

In 2006, AEGON USA recognized USD 68 million in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

In 2006, a USD 19 million loss was realized on Lease Investments Flight Trust. The debt represents a beneficial interest in a portfolio of pooled aircraft leases. Larger than expected aircraft maintenance expenses have reduced revenue generation for the Trust. AEGON USA runs models based on best estimates of future cash flows. Due to further deterioration in cash flows, AEGON USA realized an impairment loss in the first six months of 2006.

In 2006, AEGON USA recorded USD 14 million in recoveries on United Airlines, the second largest air carrier in the world. To date, a large portion of our expected distributions have been collected, and we anticipate collection of a significant portion of our remaining distributions due. Based on the likely collection of distributions the security was recovered to market indications during the first six months of 2006.

In 2006, a USD 14 million loss was realized on Aircraft Finance Trust. The notes represent a beneficial interest in a portfolio of pooled aircraft leases. Lease restructurings, early lease terminations, and lower rate renewals have reduced revenue generation for the Trust. AEGON USA runs models based on best estimates of future cash flows. Due to further deterioration in cash flows, AEGON USA realized an impairment loss in the first six months of 2006.

Equity instruments classified as available for sale

Objective evidence of impairment of an investment in an equity instrument classified as available for sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Equity securities held in an unrealized loss position that are below cost for over six months or significantly below cost at the balance sheet date are evaluated for a possibility other than temporary impairment. If an individual stock is considered to be impaired on an other than temporary basis, the value of the stock is written down to fair value for US GAAP purposes. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

AEGON applies the same monitoring practices and evaluation process for identifying impairments of shares for IFRS-EU as for US GAAP purposes.

These factors typically require significant management judgment. For equity securities considered to have an other-than-temporary impairment during the first six months 2006, a realized loss was recognized. The impairment review process has resulted in EUR 8 million of impairment charges for AEGON The Netherlands and EUR 10 million impairment charges for AEGON USA for the six months ended June 30, 2006.

Table of Contents

As of June 30, 2006, there are EUR 833 million of gross unrealized gains and EUR 74 million of gross unrealized losses in the equity portfolio of AEGON. There are no securities held by AEGON The Netherlands and AEGON USA with an unrealized loss of more than EUR 5 million. The table below represents the unrealized gain and loss share positions held by AEGON the Netherlands and AEGON USA.

amounts in million EUR	Cost basis	Carrying value	Net unrealized gains/ (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Shares	3,716	4,471	755	3,686	827	785	(72)

The composition of shares by industry sector in an unrealized loss position held by AEGON the Netherlands and AEGON USA at June 30, 2006 is presented in the table below.

Unrealized losses shares

	June 30, 2006		December 31, 2005	
amounts in million EUR	Carrying value of instruments with unrealized losses	Gross unrealized losses	Carrying value of instruments with unrealized losses	Gross unrealized losses
Communication	7	(1)	2	(1)
Consumer cyclical	29	(4)	40	(3)
Consumer non-cyclical	60	(5)	31	(5)
Financials	258	(12)	76	(4)
Funds	54	(1)	26	(1)
Industries	46	(9)	35	(5)
Resources	4	(0)	1	(1)
Services cyclical	47	(5)	19	(2)
Services non-cyclical	30	(3)	36	(2)
Technology	112	(16)	32	(4)
Other	138	(16)	91	(7)
	785	(72)	389	(35)

The table below provides the unrealized loss on shares at June 30, 2006 broken down by the period of time they have been below cost.

Time Period	**0 - 12 months**	**> 12 months**	**Total**
amounts in million EUR			
Shares	(62)	(10)	(72)

Impairment losses on Shares

The table below provides the length of time the shares held by AEGON the Netherlands and AEGON USA were below cost prior to the impairment in the first six months of 2006.

Time Period	**0 - 12 months**	**> 12 months**	**Total**
amounts in million EUR			
Shares	(18)	(0)	(18)

52

Table of Contents

v Valuation of defined benefit plans

The liabilities or assets recognized in the balance sheet in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, the expected return on plan assets, estimated future salary increases and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

Refer to Note 25 of Item 18 of the 2005 Form 20-F.

vi Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carryforwards of unused tax losses and carryforwards of unused tax credits when in the judgment of management it is more likely than not that AEGON will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews AEGON s deferred tax positions periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the tax income and expense items, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

vii Valuation of share appreciation rights and share options

Because of the inability to measure the fair value of employee services directly, fair value is measured by reference to the fair value of the rights and options granted. This value is estimated using a binomial option pricing model, taking into account the respective vesting and exercise periods of the share appreciation rights and share options.

The volatility is derived from quotations from external market sources and the expected dividend yield reflects AEGON s current dividend yield. Future blackout periods are taken into account in the model in conformity with current blackout periods. The expected term is explicitly incorporated in the model by assuming that early exercise occurs when the share price is greater than or equal to a certain multiple of the exercise price. This multiple has been set at two based on empirical evidence. The risk free rate is the interest rate for Dutch government bonds for periods ending on the last day of the exercise period.

Table of Contents

2.3 Results of Operations first six months 2006 compared to first six months 2005

Results of operations	**Six months ended June 30,**		
amounts in million EUR	**2006**	**2005**	**%**
By product segment			
Traditional life	338	366	(8)
Life for account of policyholders	447	74	
Fixed annuities	231	168	38
Variable annuities	138	(2)	
Institutional guaranteed products	138	126	10
Fee - off balance sheet products	28	52	(46)
Reinsurance	97	50	94
Accident and health insurance	186	183	2
General insurance	34	35	(3)
Banking activities	16	(3)	
Other	(1)	(1)	0
Interest charges and other	(145)	(143)	1
Operating earnings before tax	**1,507**	**905**	**67**
Gains/(losses) on investments	118	815[2]	(86)
Impairment charges	(25)	11[2]	
Other non-operating income/(charges)	9	231[2]	(96)
Share in profit/(loss) of associates	13	14	(7)
Income before tax	**1,622**	**1,976**	**(18)**
Income tax	(328)	(549)	(40)
Minority interest	0	1	
Net income [1]	**1,294**	**1,428**	**(9)**
Income before tax geographically			
Americas	1,000	944	6
The Netherlands	605	815	(26)
United Kingdom	121	160	(24)
Other countries	33	221	(85)
Holding and other activities	(125)	(161)	(22)
Eliminations	(12)	(3)	
Income before tax	**1,622**	**1,976**	**(18)**

[1] Net income means net income attributable to equity holders of AEGON N.V.

[2] Together non-operating earnings before tax

54

Table of Contents

Production first six months 2006

amounts in million EUR	Six months ended June 30, 2006	2005	%
Standardized new premium production insurance			
Life single premiums	4,802	3,142	53
Life recurring premiums annualized	943	1,028	(8)
Life total recurring plus 1/10 single	**1,423**	**1,343**	**6**
Gross deposits			
Fixed annuities	802	797	1
Institutional guaranteed products	5,503	4,431	24
Variable annuities	2,745	2,297	20
Total	9,050	7,525	20
Savings deposits	1,370	1,501	(9)
Total production on balance sheet	**10,420**	**9,026**	**15**
Net deposits			
Fixed annuities	(2,906)	(1,940)	(50)
Institutional guaranteed products	699	563	24
Variable annuities	274	317	(14)
Total	(1,933)	(1,060)	(82)
Savings deposits	(21)	(121)	83
Total net deposits	**(1,954)**	**(1,181)**	**(65)**
Off balance sheet production			
Synthetic GICs	3,166	2,572	23
Mutual funds/Collective Trusts and other managed assets	5,515	6,260	(12)
Total production off balance sheet	**8,681**	**8,832**	**(2)**

55

Table of Contents

Revenues geographically first six months 2006

amounts in million EUR	Americas	The Netherlands	United Kingdom	Other countries	Holdings, other activities and eliminations	Total
Total life insurance gross premiums	3,375	1,922	3,844	785		9,926
Accident and health insurance premiums	1,023	125		40		1,188
General insurance premiums		254		66		320
Total gross premiums	4,398	2,301	3,844	891		11,434
Investment income	2,918	983	1,215	87	19	5,222
Fees and commission income	476	177	122	17		792
Other revenues					10	10
Total revenues	**7,792**	**3,461**	**5,181**	**995**	**29**	**17,458**
Number of employees, including agent-employees	14,079	5,672	4,491	2,861	187	27,290

This report includes a non-GAAP financial measure: operating earnings before tax. The reconciliation of this measure to the most comparable GAAP measure is shown below in accordance with Regulation G. AEGON believes the non-GAAP measure shown herein, together with the GAAP information, provides a meaningful measure for the investing public to evaluate AEGON s business relative to the businesses of our peers.

amounts in million EUR	Six months ended June 30, 2006	2005	%
Operating earnings before tax	**1,507**	**905**	**67**
Gains on investments	660	848	(22)
Other income	10	176	(94)
Losses on investments	(542)	(33)	
Impairment charges	(25)	11	
Other charges	(1)	0	
Policyholder tax	0	55	
Share in profit/(loss) of associates	13	14	(7)
Income before tax	**1,622**	**1,976**	**(18)**

Table of Contents

i Overview

AEGON s half-year results for 2006 demonstrate our continuing focus on profitability. We have also made good progress in expanding our presence internationally.

Operating earnings for the Group improved by 67%, with increases in all three major country units. New life sales for the Group increased by 6% during the first half of the year, led by a record performance in the UK.

Pensions continue to offer strong growth opportunities for AEGON. In the US, our pension business experienced a 17% increase in sales. In the UK, life sales increased 55%, driven primarily by sales of individual and group pensions as well as exceptional activity that occurred as a result of Pension A-Day. In Slovakia, membership in AEGON s pension fund has grown to over 150,000 members.

AEGON s broad distribution capability remains strong. In the US, our agent force serving the middle market grew further during the first part of the year, particularly in our World Financial Group division. In the UK, our IFA distribution platform, Positive Solutions, produced another record earnings quarter. Also, our new bank distribution partnerships in Spain with Caja Badajoz and Caja Navarra have recently begun writing business.

We recently announced new agreements in Mexico and India, regions that we have identified as growth markets. Our 49% acquisition of Seguros Argos will enable us to re-establish our presence in Mexico. Additionally, our announced intention to partner with Ranbaxy Promoter Group in India to provide life insurance and asset management products through its financial services company Religare will provide AEGON a platform in this fast-developing market.

As a result of our solid capital position and strong cash flows, we have raised the interim dividend by 9% to EUR 0.24 per common share. The value of the stock dividend is 5.6% lower than the cash dividend. AEGON intends to purchase shares on the open market to neutralize the effect of stock dividend.

In summary, increases in operating earnings and value of new business, enhanced distribution capability and continued international expansion indicate that we are on track in implementing AEGON s growth strategy.

Table of Contents

ii AMERICAS

amounts in million	Six months ended June 30, 2006 USD	2005 USD	%	Six months ended June 30, 2006 EUR	2005 EUR	%
By product segment						
Traditional life	346	293	18	281	228	23
Life for account of policyholders	47	58	(19)	38	45	(16)
Fixed annuities	284	216	31	231	168	38
Variable annuities	170	(2)		138	(2)	
Institutional guaranteed products	170	162	5	138	126	10
Fee - off balance sheet products	34	44	(23)	28	34	(18)
Reinsurance	119	64	86	97	50	94
Accident and health insurance	205	198	4	167	154	8
Operating earnings before tax	**1,375**	**1,033**	**33**	**1,118**	**803**	**39**
Gains/(losses) on investments	(119)	122		(97)	95	
Impairment charges	(26)	59		(21)	46	
Income before tax	**1,230**	**1,214**	**1**	**1,000**	**944**	**6**
Income tax	(346)	(352)	(2)	(281)	(274)	3
Minority interest	0	2		0	2	
Net income	**884**	**864**	**2**	**719**	**672**	**7**
Commissions and expenses	2,222	2,083	7	1,806	1,620	11
Standardized new premium production insurance						
Life single premiums	520	698	(26)	423	543	(22)
Life recurring premiums annualized	502	529	(5)	408	411	(1)
Life total recurring plus 1/10 single	**554**	**599**	**(8)**	**450**	**465**	**(3)**
Gross deposits						
Fixed annuities	987	1,025	(4)	802	797	1
Institutional guaranteed products	6,769	5,698	19	5,503	4,431	24
Variable annuities	3,373	2,951	14	2,742	2,295	19
Total production on balance sheet	**11,129**	**9,674**	**15**	**9,047**	**7,523**	**20**
Off balance sheet production						
Synthetic GICs	3,895	3,308	18	3,166	2,572	23
Mutual funds/Collective Trusts and other managed assets	5,400	5,952	(9)	4,390	4,629	(5)
Total production off balance sheet	**9,295**	**9,260**	**0**	**7,556**	**7,201**	**5**

Exchange rates

Per 1 EUR	Weighted average rate Six months ended June 30, 2006	2005	Closing rate as of June 30, 2006	Dec. 31, 2005
USD	1.2301	1.2859	1.2713	1.1797

CAD	1.3990	1.5874	1.4132	1.3725

58

Table of Contents

Results

Operating earnings before tax for the first six months of 2006 increased 33% to USD 1,375 million. The increase in earnings was led by strong business growth in the variable annuity and reinsurance lines of business and improved mortality in the traditional life and reinsurance lines. In addition, the continued favorable returns on hedge funds, limited partnership and convertible bond investments, and the valuation of certain annuity products, all of which receive fair value treatment, have contributed to the significant earnings growth.

Net income, which includes net gains/losses on investments and impairment charges, increased 2% to USD 884 million. Net gains on investments amounted to a loss of USD 119 million in the first six months of 2006 compared to a gain of USD 122 million in the same period during 2005. This change is due to normal trading activity in the rising interest rate environment. Net impairment charges of USD 26 million in the first half of this year were well below long-term expectations, but less favorable than the net impairment recoveries of USD 59 million recorded in the first half of 2005. The effective tax rate of 28% is slightly lower than the effective rate of 29% in the comparable period.

Traditional life / Life for account of policyholders

New life sales for retail and BOLI/COLI products decreased 16% to USD 390 million compared to the first half of 2005. The majority of the decrease reflects lower sales within the Transamerica agency channel. The prospect of new legislative and regulatory changes to investor owned life insurance has created considerable uncertainty within the older age life market. AEGON continues to focus on profitability and strict underwriting disciplines which has resulted in improved value of new business and profits but somewhat lower production. In the US, the agent force serving the middle market grew further during the first part of the year, particularly in the World Financial Group division. While BOLI/COLI sales were lower in the first half of the year the US operations have already secured a significant BOLI/COLI case early in the third quarter.

Operating earnings before tax for traditional life increased 18% to USD 346 million compared to the same period last year. Mortality results for the first six months of 2006 improved from the unfavorable results in the first half of 2005. In addition, the valuation of certain financial assets carried at fair value contributed USD 32 million to operating earnings before tax in the first half of 2006 compared to USD 14 million in the same period last year.

Operating earnings before tax from life for account of policyholders decreased USD 11 million to USD 47 million compared to the first six months of 2005.

Fixed annuities

Fixed annuity new deposits of USD 987 million decreased 4% compared to the first half of 2005. Retail fixed annuity new deposits declined 15% reflecting continued increased competition from other products due to the flat yield curve. However, new deposits in the pension channel increased 33% to USD 321 million, including a terminal funding sale of USD 98 million in the second quarter. Fixed annuity account balances of USD 50.2 billion were USD 2.7 billion lower than year-end as new deposits were more than offset by higher withdrawals. The total decrement rate on the retail annuity segment increased to an annualized rate of 23% for the second quarter of 2006 but continues to be within expectations. This brings the total decrement rate for the first six months of 2006 to 20%.

Fixed annuity operating earnings before tax increased 31% to USD 284 million compared to the same period last year. This increase reflects a positive impact from total return annuities and fair value movements of certain financial assets. Lower amortization of deferred policy acquisition cost (DPAC) on the retail block has been partially offset by declining earnings due to modest

spread compression and lower account balances. Fair value movements of certain financial assets contributed USD 70 million to operating earnings before tax, compared to USD 22 million in the first two quarters of 2005. The contribution to operating earnings before tax from total return annuities amounted to a negative USD 3 million compared to a negative USD 12 million in the same period last year.

Product spreads on the largest segment of the fixed annuity book were 229 basis points on an pre-tax operating basis compared to 245 basis points in the first quarter of 2006. Product spreads in the second quarter include 23 basis points from the impact of valuation of certain financial assets carried at fair value compared to 41 basis points in the first quarter. On a normalized basis, the expected contribution to product spreads from the valuation of these assets is approximately 15 basis points.

Table of Contents

Variable annuities

Variable annuity new deposits of USD 3.4 billion increased 14% compared to the first half of 2005. The retail segment showed continued strong growth with an increase of 19% over the last year. Sales in the pension segment were 10% higher than last year, with most of this growth due to strong first quarter deposits. Variable annuity balances of USD 49.3 billion increased 3% compared to year-end 2005.

Variable annuity operating earnings before tax were USD 170 million in the first half of 2006 relative to a loss of USD 2 million in the comparable 2005 period. This includes the impact of the valuation of Canadian segregated funds, which contributed USD 40 million to operating earnings before tax in the first half of 2006, compared to a loss of USD 65 million in the same period last year. Growth in assets under management due to favorable equity markets and continued favorable persistency have contributed to the growth in earnings. The remaining increase is primarily related to a negative DPAC adjustment of USD 25 million in 2005 in addition to a positive DPAC adjustment of USD 13 million in the second quarter of 2006.

Institutional guaranteed products

Sales of institutional guaranteed products amounted to USD 6.8 billion, an increase of 19% compared to the first half of 2005. The higher sales were primarily due to medium term note funding agreements issued by the new Ireland platform through the first two quarters of 2006 and higher sales of short term products in the first quarter. The balance of institutional guaranteed products increased to USD 34.6 billion compared to USD 32.9 billion at year-end 2005.

Operating earnings before tax of institutional guaranteed products increased 5% to USD 170 million compared to the same period last year. The increase reflects the higher contribution from the valuation of certain financial assets carried at fair value, which amounted to USD 64 million in the first half of 2006, and USD 18 million in the first half of 2005. This was nearly offset by the impact of decreased product spreads resulting from the continued rise in short-term interest rates.

Fee off balance sheet products

Off balance sheet sales for the first half of 2006 was USD 9.3 billion, slightly higher than the comparable 2005 period. Retail mutual fund deposits of USD 1.7 billion increased 53% compared to first half of 2005 due primarily to increased sales in the wirehouse and fee planner channels. Pension mutual funds increased 20% to USD 3.1 billion, primarily due to strong takeover deposits during the first quarter of 2006. Synthetic GIC sales of USD 3.9 billion in the first six months of 2006 increased 18% from USD 3.3 billion. Institutional asset management sales decreased from USD 2.3 billion to USD 0.6 billion in the first half of 2006 due to a strong first quarter of 2005. Off balance sheet assets have increased 5% compared to year-end 2005 and totaled USD 84.6 billion on June 30, 2006.

Operating earnings before tax from fee off balance sheet products of USD 34 million declined by USD 10 million compared to the first six months of 2005. This decrease includes a one-time release of USD 20 million during the second quarter of 2005 from a long-term deferred compensation plan. This was partly offset by higher fees from the growth in assets under management.

Reinsurance

Reinsurance new life sales of USD 164 million increased USD 27 million or 20% over the same period in 2005 due primarily to continued strong international sales.

Reinsurance operating earnings before tax increased 86% to USD 119 million compared to the same period in 2005. The increase in earnings primarily reflects continued growth in this business and favorable mortality during the first half of 2006. In addition, earnings from the total return annuity product amounted to USD 15 million in the first half of 2006 compared to a loss of USD 8 million in the first half of 2005.

Accident and health business

Accident and health premiums of USD 1,258 million increased 2% compared to the same period last year. Accident and health operating earnings before tax increased 4% to USD 205 million compared to the first six months of 2005. The increase in earnings is primarily due to favorable claims experience relative to the same period in 2005 and continued growth.

Table of Contents

Commissions and expenses

Commissions and operating expenses of USD 2,222 million increased 7% compared to the first half of 2005. Operating expenses of USD 947 million were up 11% compared to the same period last year. This increase includes the impact of a one-time release of USD 20 million during the second quarter of 2005 from a long-term deferred compensation plan included in the fee off balance sheet line of business. Operating expenses increased over the prior year primarily due to growth initiatives in variable annuities, off balance sheet asset management, and international expansion, as well as increased regulatory and compliance costs.

Revenue generating investments

Total revenue generating investments amounted to USD 269 billion at June 30, 2006, an increase of 1% compared to year-end 2005.

AEGON provides normalized return expectations for certain financial assets that are managed on a total return basis with no offsetting changes to the fair value of liabilities. Normalized annual earnings on these assets, as described in more detail below, are based on long-term expected returns in financial markets, but should not be used as an explicit forecast for the year as actual results can and will deviate from these expectations. These levels of normalized annualized earnings will be revisited and updated at the end of 2006.

These assets include certain hedge funds, real estate limited partnerships and convertible bonds, with assets totaling approximately USD 3.3 billion as of June 30, 2006. Operating earnings for the first half of 2006 include USD 219 million (USD 260 million before DPAC offsets) related to these asset classes, including fair valuation of assets of USD 194 million and cash income of USD 25 million. Based on current holdings and asset class returns consistent with long-term historical experience, the long-term expected return on an annual basis is 8-10%, including fair valuation and cash income, before tax and DPAC offsets. The impact of the fair valuation of assets is most notable in the traditional life, fixed annuity and institutional guaranteed products lines of business.

Table of Contents

iii THE NETHERLANDS

amounts in million EUR	Six months ended June 30,		
	2006	2005	%
Income by product segment			
Traditional life	47	127	(63)
Life for account of policyholders	302	(67)	
Fee - off balance sheet products	17	14	21
Accident and health insurance	17	28	(39)
General insurance	17	20	(15)
Banking activities	16	(3)	
Operating earnings before tax	**416**	**119**	
Gains/(losses) on investments	190	729	(74)
Impairment charges	(4)	(34)	88
Share in profit/(loss) of associates	3	1	200
Income before tax	**605**	**815**	**(26)**
Income tax	(68)	(214)	(68)
Net income	**537**	**601**	**(11)**
Commissions and expenses	522	591	(12)
Standardized new premium production insurance			
Life single premiums	628	583	8
Life recurring premiums annualized	65	67	(3)
Life total recurring plus 1/10 single	**128**	**126**	**2**
Non-life premiums	**46**	**27**	**70**
Gross deposits			
Saving deposits	1,370	1,501	(9)
Total production on balance sheet	**1,370**	**1,501**	**(9)**
Off balance sheet production			
Mutual funds and other managed assets	134	495	(73)
Total production off balance sheet	**134**	**495**	**(73)**

Table of Contents

Results

Operating earnings before tax amounted to EUR 416 million in the first six months of 2006, compared to EUR 119 million in the first six months of 2005. The increase in operating earnings in the Netherlands includes the positive effect of a EUR 235 million release of guarantee provisions for unit-linked business (of which EUR 31 million was recorded in the second quarter of 2006), whereas EUR 83 million was added to these provisions in the first six months of 2005. The release of guarantee provisions reflects the effect of the increase in interest rates on the risk-neutral market valuation of these guarantees. The comparable period also included EUR 41 million in provisions for improvements of Spaarkas products. Certain financial assets that are carried at fair value with no offsetting changes in the fair value of liabilities contributed a negative EUR 1 million to operating earnings before tax, compared to a positive EUR 44 million in the first six months of 2005.

Net income, which includes net gains/losses on investments, impairment charges and the share in profit of associates, decreased 11% to EUR 537 million. Net gains/losses on investments (before tax) amounted to EUR 190 million compared to EUR 729 million in the first six months of 2005. The gains and losses on investments (before tax) include a negative EUR 346 million from the decrease in market value of derivatives used for asset and liability management purposes, compared to a positive contribution of EUR 293 million in the first half of 2005. The effective tax rate amounted to 11% compared to 26% in the first six months of the prior year. The decrease is largely the result of substantially higher tax-exempt gains from the sale of shares.

Traditional life / Life for account of policyholders

New life sales increased 2% to EUR 128 million. The strong growth in individual life and pension sales and in SME pensions more than compensated for the absence of large group pension contracts in the first six months of 2006. The pipeline of new group pension sales is promising.

Operating earnings before tax for traditional life amounted to EUR 47 million for the first six months of 2006, compared to EUR 127 million in the same period in 2005. The decrease mainly reflects lower investment income, including a smaller contribution from assets carried at fair value with no offsetting changes in the fair value of liabilities, and lower technical results.

Operating earnings before tax from life for account of policyholders amounted to EUR 302 million, compared to a loss of EUR 67 million in the first six months of 2005. This reflects the release of provisions for guarantees and the absence of additions to provisions for Spaarkas products.

Fee off balance sheet products

Off balance sheet product sales amounted to EUR 134 million compared to EUR 495 million in the first six months of 2005. The comparable period included a number of large mandates.

Operating earnings before tax from fee business amounted to EUR 17 million, compared to EUR 14 million in the first six months of 2005, as a result of improved performance of Meeùs and the asset management activities.

Non-life insurance

Accident and health premiums decreased 5% to EUR 125 million as a result of high lapse rates in the sickness benefits market due to new legislation. Sales of the new WIA disability product developed favorably and represented 57% of all new non-life production in the first six months of 2006. Accident and health operating earnings before tax were EUR 17 million compared to

EUR 28 million in the first six months of 2005. Technical results were lower compared to the favorable results in 2005, mainly because of higher claim experience and high lapse rates in the sick leave market related to legislative changes.

General insurance premiums decreased 2% to EUR 254 million. General insurance operating earnings before tax amounted to EUR 17 million compared to EUR 20 million in the comparable period, mainly due to higher claims and increased competition.

Banking activities

At the end of the second quarter of 2006, over 1,000 Levensloop contracts have been signed with employers, representing well over 600,000 employees. Currently more than 20,000 Levensloop accounts have been opened. Until July 2006, employees had the opportunity to open an account and save for this year. New Levensloop deposits, largely recurring, amounted to EUR 43 million in the first six months of 2006. The pipeline of new contracts represents 500 companies.

Operating earnings before tax from banking activities amounted to EUR 16 million, compared to a loss of EUR 3 million in the first six months of 2005. The increase reflects the absence of additions to provisions for equity lease products.

Table of Contents

Commissions and expenses

Commissions and expenses decreased 12% to EUR 522 million in the first six months of 2006. Operating expenses amounted to EUR 341 million, 14% lower than in the comparable period of 2005. This is primarily due to no additional provisions for Spaarkas and equity lease products. On a like for like basis, operating expenses were up by approximately 5%, due to the additional costs of external staffing and professional services.

Revenue generating investments

Total revenue generating investments increased to EUR 63.7 billion at June 30, 2006, up 2% from year-end 2005 levels.

AEGON provides normalized return expectations for certain financial assets that are managed on a total return basis with no offsetting changes to the fair value of liabilities. Normalized annual earnings on these assets, as described in more detail below, are based on long-term expected returns in financial markets, but should not be used as an explicit forecast for the year as actual results can and will deviate from these expectations. These levels of normalized annualized earnings will be revisited and updated at the end of 2006.

These assets include an investment in a private equity fund and totaled EUR 199 million as of June 30, 2006. Operating earnings for the first six months of 2006 include a loss of EUR 1 million related to these asset classes. Based on current holdings and asset class returns consistent with long-term historical experience, the long-term expected return on an annual basis is 8% before tax. The impact of the fair valuation of assets is notable in the traditional life and life for account of policyholders lines of business.

Table of Contents

iv UNITED KINGDOM

amounts in million	Six months ended June 30,			Six months ended June 30,		
	2006 GBP	2005 GBP	%	2006 EUR	2005 EUR	%
Income by product segment						
Traditional life	6	2	200	9	3	200
Life for account of policyholders	72	64	13	105	94	12
Fee - off balance sheet products	(3)	2		(5)	3	
Operating earnings before tax	**75**	**68**	**10**	**109**	**100**	**9**
Gains/(losses) on investments	(2)	4		(3)	6	
Impairment charges	(1)	(1)	0	(1)	(1)	0
Other non operating income/(charges)[1]	11	38	(71)	16	55	(71)
Income before tax	**83**	**109**	**(24)**	**121**	**160**	**(24)**
Income tax attributable to policyholder return	0	(38)		0	(55)	
Income before income tax on shareholders return	**83**	**71**	**17**	**121**	**105**	**15**
Income tax on shareholders return	(8)	(18)	(56)	(12)	(26)	(54)
Minority interest	0	0		0	(1)	
Net income	**75**	**53**	**42**	**109**	**78**	**40**
Commissions and expenses	279	225	24	406	329	23
Standardized new premium production insurance[2]						
Life single premiums	2,417	1,367	77	3,520	1,996	76
Life recurring premiums annualized	257	184	40	375	269	39
Life total recurring plus 1/10 single	**499**	**321**	**55**	**727**	**469**	**55**
Off balance sheet production						
Mutual funds and other managed assets	529	669	(21)	770	977	(21)
Total production off balance sheet	**529**	**669**	**(21)**	**770**	**977**	**(21)**

[1] Included in other non-operating income/(charges) are charges made to policyholders with respect to income tax. There is an equal and opposite tax charge which is reported in the line Income tax attributable to policyholder return.

[2] Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.

Exchange rates

	Weighted average rate		Closing rate as of	
	Six months ended June 30,		June 30,	Dec. 31,
Per 1 EUR	**2006**	**2005**	**2006**	**2005**
GBP	0.6867	0.6847	0.6921	0.6853

Table of Contents

Results

Operating earnings before tax amounted to GBP 75 million compared to GBP 68 million in the first six months of 2005. The increase mainly reflects business growth, the positive effect of higher equity and bond markets and positive mortality experience. Earnings are negatively impacted by a GBP 11 million charge for the incentive plan for registered individuals (RIs) and staff related to the accelerated acquisition of the remaining 40% of Positive Solutions (GBP 4 million in the second quarter). Excluding the effect of the incentive plan charge, operating earnings before tax increased 26%.

Net income, which includes net gains/losses on investments and impairment charges, increased 42% to GBP 75 million. Other non-operating income includes a gain of GBP 11 million in the first quarter of 2006 related to the sale of the Luxembourg-based subsidiary Scottish Equitable International to La Mondiale Participations. In the consolidated earnings for the Group, 35% of this gain has been eliminated to reflect AEGON s 35% share in La Mondiale Participations.

The effective tax rate in the first six months of 2006 decreased from 25% to 10%. This reflects the tax-free disposal gain on the Luxembourg subsidiary and a change in the mix of profits from business lines.

Traditional life / Life for account of policyholders

New life sales in the first six months of 2006 increased 55% and the second quarter of this year represented the highest quarterly sales result ever. The growth in sales is driven by increased activity in the pension business and strong sales in bonds and annuities. Part of the higher pension sales can be attributed to exceptional activity due to Pension A-Day.

Operating earnings before tax for traditional life amounted to GBP 6 million compared to GBP 2 million in the first six months of 2006, due to positive mortality experience in the second quarter of 2006. Operating earnings before tax from life for account of policyholders was GBP 72 million, a 13% increase. This increase mainly reflects business growth and the impact of the higher equity and bond markets on fund related charges.

Fee off balance sheet products

In asset management, the retail business continued its trend from 2005 and showed strong performance, with the majority of sales coming from bond funds emphasizing the strength of AEGON s fixed income offering. Institutional sales were lower as two large institutional mandates were won in the first half of 2005. Total off balance sheet production amounted to GBP 529 million compared to GBP 669 million in the first six months of 2005.

In the owned distribution businesses, Positive Solutions had a strong first half year generating its highest-ever quarterly income in the second quarter. The number of RIs reached 1,423 at the end of the second quarter, an increase of approximately 110 RIs compared to the end of 2005. Average productivity remains high.

Operating earnings before tax from the fee business segment amounted to a negative GBP 3 million, compared to a positive contribution of GBP 2 million in the first six months of 2005. The lower result was due to the charge of GBP 11 million for the incentive plan related to Positive Solutions.

Commissions and expenses

Commissions and expenses increased 24% to GBP 279 million including the GBP 11 million incentive cost related to Positive Solutions. Other factors affecting commissions and expenses include growth in the distribution businesses, leading to an increase of GBP 10 million in

paid-out commissions. Operating expenses increased by 7% to GBP 174 million, reflecting investment and growth in the businesses, including protection and Positive Solutions.

Revenue generating investments

Total revenue generating investments of GBP 45.2 billion were stable compared to year-end 2005 levels.

66

Table of Contents

v OTHER COUNTRIES

amounts in million EUR	Six months ended June 30,		
	2006	2005	%
Income by product segment			
Traditional life	1	8	(88)
Life for account of policyholders	2	2	0
Fee - off balance sheet products	(12)	1	
Accident and health insurance	2	1	100
General insurance	17	15	13
Other	(1)	(1)	0
Operating earnings before tax	**9**	**26**	**(65)**
Gains/(losses) on investments	15	6	150
Impairment charges	(1)	176	
Share in profit/(loss) of associates	10	13	(23)
Income before tax	**33**	**221**	**(85)**
Income tax	(9)	(34)	(74)
Net income	**24**	**187**	**(87)**
Commissions and expenses	194	127	53
Standardized new premium production insurance			
Life single premiums	231	20	
Life recurring premiums annualized	95	281	(66)
Life total recurring plus 1/10 single	**118**	**283**	**(58)**
Gross deposits			
Variable annuities	3	2	50
Total production on balance sheet	**3**	**2**	**50**
Off balance sheet production			
Mutual funds and other managed assets	221	159	39
Total production off balance sheet	**221**	**159**	**39**

Table of Contents

Exchange rates

Weighted average exchange rates for the currencies of the countries included in the Other countries segment, and which do not report in EUR, are summarized in the table below.

Per 1 EUR	Six months ended June 30, 2006	2005
Czech Republik Krona (CZK)	28.429	30.110
Hungarian Forint (HUF)	260.291	247.410
New Taiwan Dollar (NTD)	39.858	40.430
Polish Zloty (PLN)	3.877	
Rin Min Bi Yuan (CNY)	9.821	10.750
Slovakian Koruna (SKK)	37.489	38.750

Please note that the Other countries segment is accounted for in the financial statements in euro, but the operating results for the individual country units within Other countries are accounted for, and discussed, in terms of the local currencies of those country units.

Results

Operating earnings before tax in Other countries amounted to EUR 9 million compared to EUR 26 million in the first six months of 2005. Higher earnings in Hungary and Spain were more than offset by lower results in Taiwan and higher start-up costs due to investments in growth in China and Slovakia.

Net income, which includes net gains/losses on investments, amounted to EUR 24 million compared to EUR 187 million in the first six months of 2005. The comparable period included a book gain on the sale of the Spanish general insurance activities for EUR 176 million before tax. AEGON s share in the profit (and loss) of associates (after tax) amounted to EUR 10 million, compared to EUR 13 million in the first six months of 2005.

Traditional life / Life for account of policyholders

New life sales in Taiwan in the first six months of 2006 decreased 76% to NTD 2.6 billion (EUR 64 million), reflecting the high levels of sales through the broker channel in the comparable period. Unit-linked sales increased for the sixth consecutive quarter, accounting for 44% of total new life sales in the first six months of 2006. The fall in traditional life sales is due to re-pricing of the products following the revised reserving requirements introduced in 2005, and price competition. Total gross premiums increased 8% to NTD 16.6 billion (EUR 417 million) in the first six months of 2006, mainly due to growth in recurring premiums of the life for account of policyholder business.

In Hungary, new life sales increased 5% to HUF 2.1 billion (EUR 8 million). The new risk product showed good sales momentum and various products have been repositioned in order to increase sales through the independent network. AEGON Poland had its third consecutive record sales quarter, with new life sales amounting to PLN 104 million (EUR 27 million). However, sales towards the end of the quarter were affected by increased equity market volatility.

In Spain, new life sales increased 44% to EUR 14 million, reflecting growth in recurring premium sales and the proportional inclusion of the sales of Badajoz Vida, the joint venture with Caja de Badajoz. New premium production has been adversely affected by changes in tax law, effective in 2007, delaying the closing of several agreements on group policies.

The partnership with CAM saw a decrease of 31% in new life sales to EUR 89 million (on a 100% basis). Premium income for the partnership with CAM amounted to EUR 247 million (on a 100% basis). The partnership with CAM is not consolidated in AEGON s accounts. AEGON includes its share in the results of the partnership in the line share in profit / (loss) of associates.

Total traditional life insurance operating earnings before tax from Other countries amounted to EUR 1 million, compared to EUR 8 million in the first six months of 2005. This reflects lower results in Taiwan due to the decline in sales and higher investments in growth in China. Operating earnings from life for account of policyholders remained stable and amounted to EUR 2 million.

Table of Contents

Fee - off balance sheet products

In Hungary, off balance sheet product sales amounted to HUF 50 billion (EUR 191 million). Sales in the pension fund business continued to grow, with the number of new members increasing by 38% to almost 28,000. Total pension fund membership amounted to over 600,000 members at the end of June 2006. Off balance sheet investments grew by 13% to HUF 317 billion (EUR 1,118 million) compared to the year-end 2005 level.

In Slovakia, the pension fund business continued to report strong growth. In the first six months, approximately 100,000 new pension fund members were registered, bringing the total to over 150,000.

Total fee - off balance sheet operating earnings before tax from Other countries amounted to a negative EUR 12 million, against a positive EUR 1 million for the first six months of 2005, reflecting investments to grow the Slovakian pension business.

Non-life insurance

In Hungary, non-life premium income increased by 6% to HUF 17 billion (EUR 65 million) mainly as a result of increased household insurance sales. Non-life premiums in Spain, which only include health business, increased 3% to EUR 39 million.

Accident and health insurance operating earnings before tax in Other countries amounted to EUR 2 million compared to EUR 1 million in the first six months of 2005. General insurance operating earnings before tax increased to EUR 17 million from EUR 15 million in the comparable period last year.

Commissions and expenses

Commissions and expenses increased 53% to EUR 194 million mainly due to lower deferral of commissions in Taiwan following a change in business mix. Operating expenses increased 2% to EUR 67 million due to higher expenses in China, Hungary and new operations in Poland, offset by lower expenses in Spain.

Revenue generating investments

Total revenue generating investments increased 8% to EUR 5.9 billion compared to year-end 2005 levels.

Associates

AEGON s share in the profit of associates amounted to EUR 10 million (after tax), compared to EUR 13 million in the first six months of 2005. This line represents the income from the partnership with CAM (49.99% interest) as well as the income from the 35% stake in La Mondiale Participations.

Table of Contents

vi Liquidity and capital resources

General

The AEGON Group conducts its capital management processes at various levels in the organization. The main goal of AEGON s capital management is to manage the capital adequacy of its operating companies to high standards within leverage tolerances consistent with strong capitalization.

Capital adequacy

AEGON manages capital adequacy at the level of its country units and their operating companies. AEGON seeks to support its internal capital adequacy levels at the higher of local regulatory requirements, 165% of the relevant local Standard & Poor s capital adequacy models or internally imposed requirements. During the first half of 2006, the capital adequacy of AEGON s operating units continued to be strong. At June 30, 2006, all of AEGON s units were capitalized within these tolerances.

Capital base

AEGON applies leverage tolerances to its capital base. The capital base reflects the capital employed in core activities and consists of shareholders equity, capital securities, and dated subordinated and senior debt. AEGON targets its capital base to comprise at least 70% shareholders equity, at least 5% capital securities, and a maximum of 25% dated subordinated and senior debt. At June 30, 2006, AEGON s capital base was within these prescribed tolerances: shareholders equity capital represented 74% of its total capital base, while perpetual capital securities comprised 16% of its total capital base. Senior and dated subordinated debt accounted for the remaining 10%.

In June 2006, AEGON N.V. issued USD 500 million Junior Perpetual Capital Securities. A further USD 50 million and a new tranche of EUR 200 million of Junior Perpetual Capital securities were issued in July 2006. The proceeds of both issues will be used for general corporate purposes including the retirement of senior debt. This will further improve the quality of the capital base and reduce refinancing risk.

The ratio of shareholders equity to total capital declined, mainly due to a decrease in revaluation reserves as a result of the impact of higher interest rates on the valuation of bonds. Under IFRS-EU accounting rules, reported equity has been subject to higher volatility. AEGON will monitor the development of its capital ratios under IFRS-EU in order to ensure continued strong capitalization. In the future, AEGON s capital base may be subject to regulatory requirements arising from new legislation in the Netherlands.

Shareholders equity

Shareholders equity was EUR 17,334 million at June 30, 2006, compared to EUR 19,276 million at December 31, 2005. The decrease of EUR 1,942 million is largely due to adverse movements in the revaluation reserve of EUR 1,787 million, currency transation losses of EUR 954 million and cash dividends paid of EUR 263 million. Net income for the first half year amounted to EUR 1,294 million.

Debt funding and liquidity

AEGON s funding strategy continues to be based on assuring access to international capital markets at low costs. As part of this strategy, AEGON aims to offer institutionally targeted debt securities in amounts that are eligible for benchmark inclusion and to support the maintenance of liquid secondary markets in these securities. AEGON also aims to maintain excellent access

to retail investors, as witnessed by the successful issuance of Junior Perpetual Capital Securities in recent years and the issuance of two separate tranches of Junior Perpetual Capital Securities during the first seven months of 2006. AEGON s focus on the fixed income investor base will continue to be supported by an active investor relations program to keep investors well informed about AEGON s strategy and results. Most of AEGON s external debt is issued by the parent company, AEGON N.V., as well as a limited number of other AEGON Group companies whose securities are guaranteed by AEGON N.V. AEGON N.V. has employed its regular access to the capital markets through private placements issued under its USD 6 billion Euro Notes and Capital Securities Program and under a separate US shelf registration. AEGON s and AEGON Funding Corp. s combined USD 4.5 billion Euro and USD Commercial Paper Program (guaranteed by AEGON N.V.) facilitate access to international and domestic money markets, when required.

At June 30, 2006, AEGON N.V. had EUR 2.0 billion outstanding under its Notes and Capital Securities Program and EUR 0.5 billion under its Commercial Paper Program. AEGON maintains back-up credit facilities to support outstanding amounts under its Commercial Paper Programs. The principal arrangement is a USD 5 billion syndicated facility maturing in 2010 and extendable until 2012, of which USD 3 billion acts as a back-up facility for AEGON s Commercial Paper Programs.

Table of Contents

Operating and investment leverage are not part of the capital base. At June 30, 2006, operating and investment leverage were EUR 2.6 billion (December 31, 2005: EUR 1.6 billion). Debt funding of collateral reserve relief for business units of AEGON USA represents the largest portion of operating leverage. Investment leverage increased during the first half of 2006, mainly due to the increase in the short term funding needs of operational units. Internal sources of liquidity include distributions from operating subsidiaries on the basis of excess capital or cash and cash equivalents. During the first half of 2006, internal distributions from units were sufficient to cover interest expense, other holding company expenses, and dividend payments.

Internal distributions may be subject to (local) regulatory requirements. Each business unit further controls its liquidity by closely managing the liquidity of its investment portfolio. The duration profile of AEGON s capital debt and interest rate structure is managed in line with the duration of surplus assets related to its investments in its subsidiaries, subject to liquidity needs, capital, and other requirements. Of AEGON s total capital debt and hybrid securities at June 30, 2006, approximately EUR 0.9 billion matures within three years and EUR 10 million between three and five years. EUR 5.2 billion is perpetual or matures after five years. AEGON believes its working capital, backed by the external funding programs and facilities, is amply sufficient for the Group s present requirements.

vii Application of Critical Accounting Policies US GAAP

Reserve for Guaranteed Minimum Benefits and Amortization of Deferred Policy Acquisition Cost, including Value of Business Acquired

The application of these accounting policies is discussed in Application of Critical Accounting Policies International Financial Reporting Standards . The primary difference in applying these accounting principles for US GAAP accounting purposes is that for the flexible premium insurance products and investment contracts in The Netherlands and the United Kingdom, an annual unlocking as described for the Americas is performed and the reserves in the United Kingdom are adjusted to equal the contract holder balance.

Impairment of debt securities

The same monitoring practices and evaluation process as described in Application of Critical Accounting Principles IFRS-EU is followed. The practices described are those followed by AEGON USA, as 80% of the unrealized loss exposure is in the US portfolio.

If it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary-impairment (OTTI) shall be considered to have occurred. For securities that are in an unrealized loss position due to increases in the risk free interest rate or general widening of credit spreads, AEGON looks to whether the particular asset does not fit AEGON s long term investment strategy and to specific programs at the balance sheet date that may result in future sales of assets. If a particular asset does not fit AEGON s long-term investment strategy and is in an unrealized loss position due solely to interest rate changes, the security has been impaired to the fair value under US GAAP. For programs that may result in future sales, estimates are performed to determine the amount of loss and which securities that loss is attributable to.

If the decline in fair value is judged to be an OTTI, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). Fair value is first based on quoted market prices in an active or less active market. If this approach is not applicable, the fair value is modeled by evaluating such factors as liquidity, capital structure issues, cash flow generating capability and conservative expectations as to future results. The fair value also incorporates independent third party valuation analysis.

Write offs on impaired debt instruments can be partially or fully reversed under IFRS-EU if the value of the impaired assets increases. Such reversals are not allowed under US GAAP.

Pension expense

US GAAP Statement of Financial Accounting Standard 87 Employees Accounting for Pensions (SFAS No. 87), is applied to the pension plans of the Group. SFAS No. 87 calculations require several assumptions, including future performance of financial markets, future composition of the work force and best estimates of long-term actuarial assumptions. The expected return on plan assets is calculated using a moving average for the plan assets. In a period of market decline, such as recently experienced, this moving average is higher than the fair value of the assets. The difference between the expected return reflected in the income statement and the actual return on the assets in a certain year is deferred. Deferred gains or losses are amortized to the income statement applying a corridor approach. The corridor is defined as 10% of the greater of the moving average value of the plan assets or the projected benefit obligation. To the extent that the prepaid pension costs at the beginning of the year exceed the moving average asset value less the pension benefit obligation by more than the 10% corridor, the excess is amortized over the employees average future years of service (approximately seven years). The assumptions are reviewed on an annual basis and changes are made for the following year, if required.

Table of Contents

Goodwill

Pursuant to SFAS No. 142, Goodwill and Other Intangible Assets , goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. Impairment testing requires the determination of the fair value for each of our identified reporting units. The reporting units identified for AEGON based upon the SFAS No. 142 rules include: AEGON USA, AEGON Canada, AEGON The Netherlands, AEGON UK insurance companies and AEGON UK distribution companies, other countries and Transamerica Finance Corporation.

The fair value of the insurance operations is determined using valuation techniques consistent with market appraisals for insurance companies, a discounted cash flow model requiring assumptions as to a discount rate, the value of existing business and expectations with respect to future growth rates and term. For our non-insurance operations, fair value was determined using a discounted cash flow analysis. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the determination of fair value involve significant judgments and estimates. The discount rates used are believed to represent market discount rates, which would be used to value businesses of similar size and nature.

viii Certain effects of US GAAP

Net income of EUR 894 million was reported for the first six months of 2006 based on US GAAP, compared to a net income of EUR 1,151 million over the same period in 2005. The US GAAP net income reflects the same financial statement impacts that were previously described on an IFRS-EU basis.

See Note 1.8 for a discussion of the main differences for net income and shareholders equity under IFRS-EU and US GAAP.

Table of Contents

DISCLAIMER

Local currencies and constant currency exchange rates

This report contains certain information about our results and financial condition in USD for the Americas, GBP for the United Kingdom, HUF for Hungary and NTD for Taiwan because those businesses operate and are managed primarily in those currencies. Certain comparative information presented on a constant currency basis eliminates the effects of changes in currency exchange rates. None of this information is a substitute for or superior to financial information about us presented in EUR, which is the currency of our primary financial statements.

FORWARD LOOKING STATEMENTS

The statements contained in this report that are not historical facts may be forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as believe , estimate , intend , may , expect , anticipate , predict , project , counting on , plan , continue , want , forecast , should , would , is confident and will and similar expressions as they relate to us are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We undertake no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations, including, but not limited to, the following:

- Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom;
- Changes in the performance of financial markets, including emerging markets, including:
  - The frequency and severity of defaults by issuers in our fixed income investment portfolios; and
  - The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in value of equity and debt securities we hold;
- The frequency and severity of insured loss events;
- Changes affecting mortality, morbidity and other factors that may affect the profitability of our insurance products;
- Changes affecting interest rate levels and continuing low interest rate levels and rapidly changing interest rate levels;

Changes affecting currency exchange rates, including the EUR/USD and EUR/GBP exchange rates;

Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;

Changes in laws and regulations, particularly those affecting our operations, the products we sell and the attractiveness of certain products to our consumers;

Regulatory changes relating to the insurance industry in the jurisdictions in which we operate;

Acts of God, acts of terrorism, acts of war and pandemics;

Changes in the policies of central banks and/or governments;

Litigation or regulatory action that could require us to pay significant damages or change the way we do business;

Customer responsiveness to both new products and distribution channels;

Competitive, legal, regulatory, or tax changes that affect the distribution cost of or demand for our products;

Our failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives;

The impact on our reported financial results and financial condition as a result of our adoption of International Financial Reporting Standards.