NOG ENERGY WEEK 25 ANNIVERSARY

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Nigeria's Deepwater Revival: The Case for Optimism

Authored in Partnership With

Wood Mackenzie

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Introduction: A Report by Wood Mackenzie

Nigeria's deepwater oil and gas sector is entering a new phase after more than a decade of limited investment and declining production. The final investment decision (FID) on the Bonga North project in December 2024 represented the first major deepwater project sanction in the country since 2013 and signalled a broader improvement in industry confidence. While the sector still faces significant challenges, a combination of improved fiscal terms, renewed appetite from international oil companies (IOCs), available infrastructure capacity and large discovered resources has created conditions for a revival.

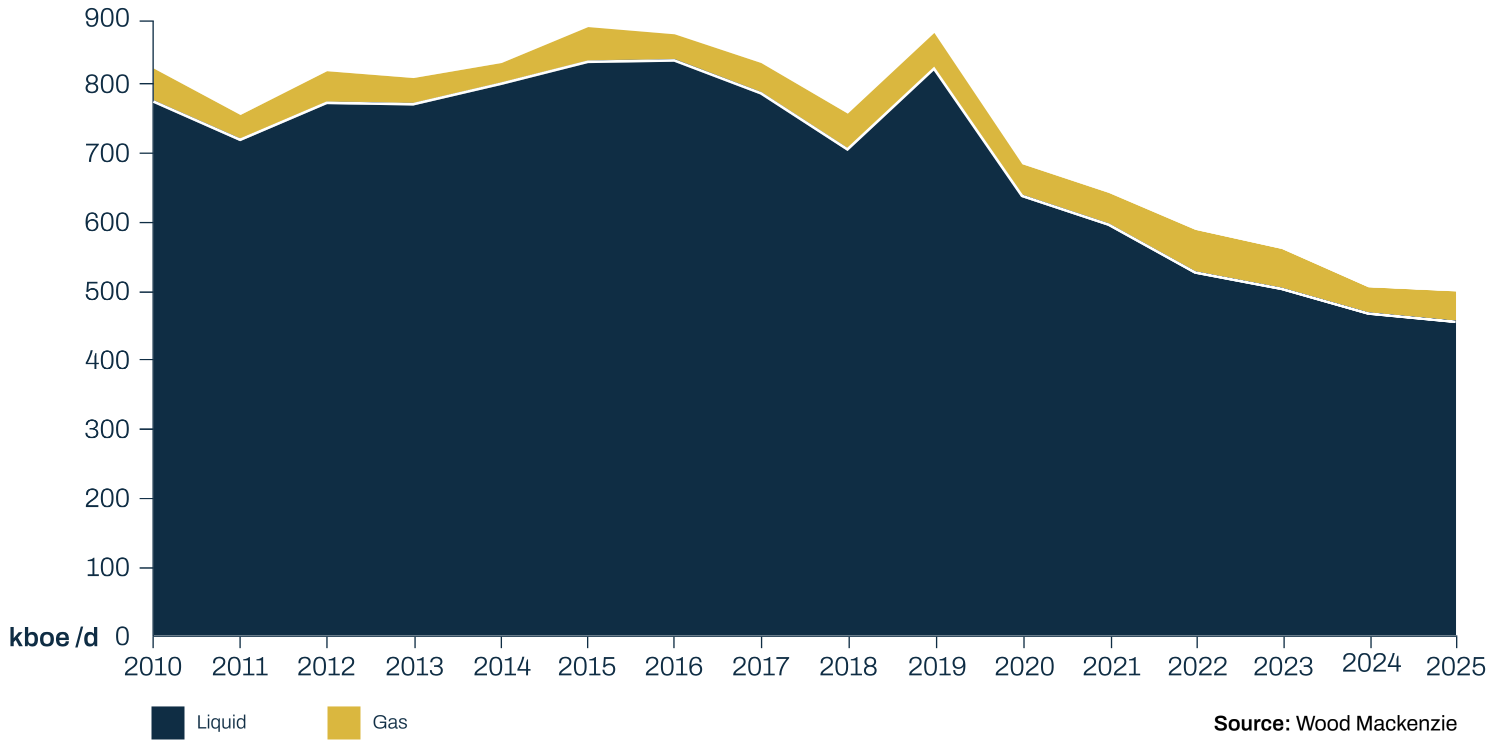
Renewed Momentum in Deepwater Development

The sector's fortunes began to improve following the renewal of six legacy deepwater contracts between NNPCL and international oil companies in 2022. These renewals helped resolve long-standing uncertainties, providing operators with greater confidence to pursue new developments and life-extension investments.

Additional momentum was generated through the introduction of new deepwater fiscal incentives in 2024. Combined with ambitious national production targets and a renewed focus from major operators on offshore growth, these measures have improved the commercial attractiveness of deepwater developments. International operators such as Shell, Eni, ExxonMobil and TotalEnergies have subsequently accelerated planning and evaluation activities across numerous projects.

If all major identified developments proceed, Nigeria could add approximately 700 kb/d of liquids production at peak and around 950 mmcfd of gas from key projects including Bonga North, Bonga Southwest-Aparo, Usan, Owowo, Zabazaba, Etan, Preowei, Nnwa-Doro and Bosi. Although these additions are unlikely to have a material impact before 2030, they could play a major role in Nigeria's production outlook over the longer term.

Deepwater Production



Source: Wood Mackenzie

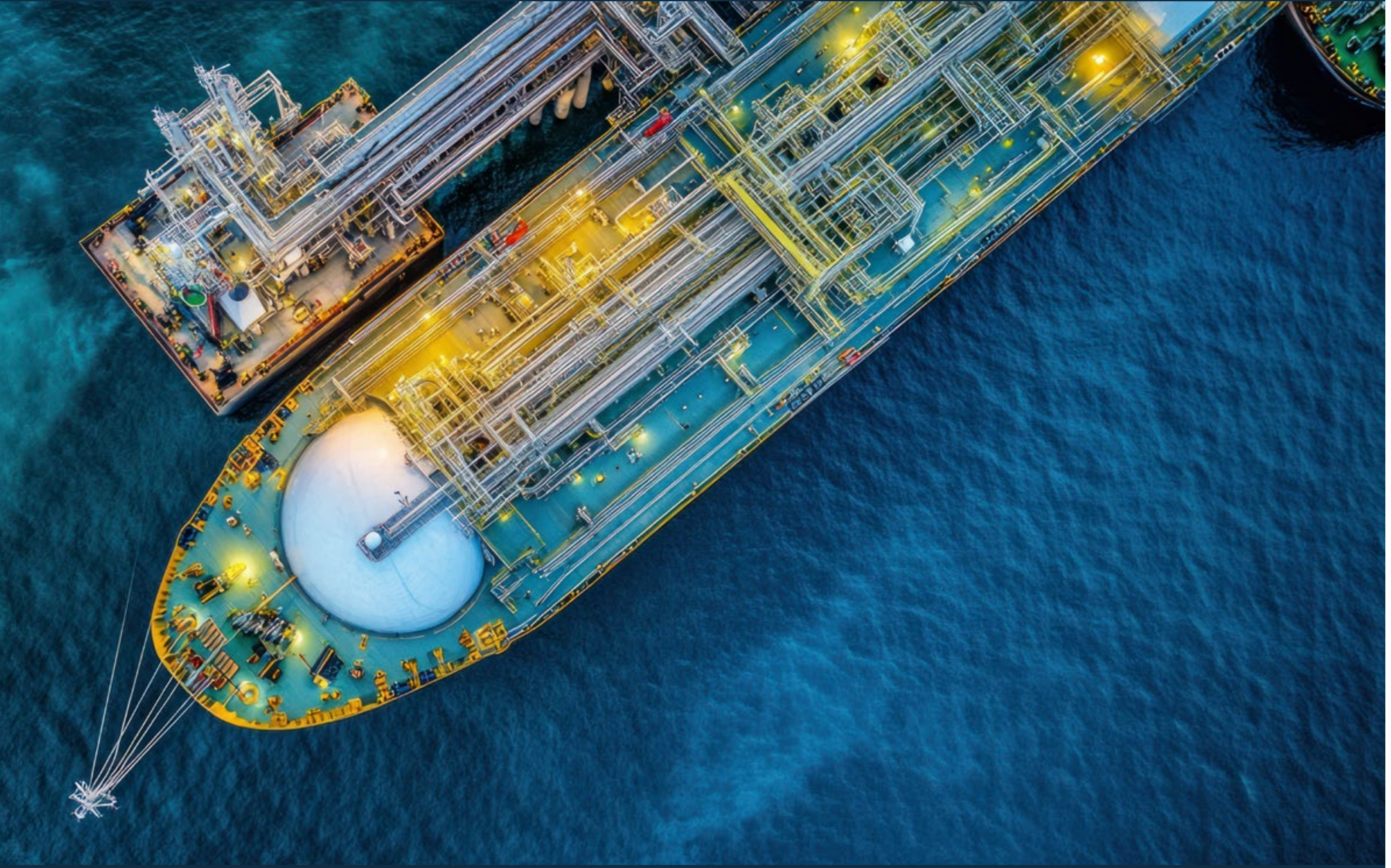
Fiscal Incentives Driving Investment Decisions

A major catalyst behind renewed investor interest is the improvement in fiscal terms under the Petroleum Industry Act and subsequent amendments. The 2024 incentive package specifically targets deepwater developments and encourages operators to reach FID before 2029.

The incentives are particularly attractive for large liquids-rich developments. Fields containing more than 400 million barrels of oil equivalent can receive tax credits of up to US$4.5 per barrel, subject to a maximum value of US$2.25 billion. Smaller projects may qualify for credits of US$3 per barrel, capped at US$450 million. Wood Mackenzie fiscal and valuation modelling suggests these incentives can improve project internal rates of return by approximately 3% for larger developments.

Timing remains crucial. Although incentives will continue beyond 2029, they will be halved, increasing commercial pressure on operators to advance viable projects before the current window closes.

Gas developments also stand to benefit. New provisions specifically support gas-rich deepwater projects. Projects such as Nnwa-Doro may therefore become more competitive and commercially attractive than previously envisaged.



The Role of Existing FPSO Infrastructure

Floating production, storage and offloading vessels (FPSOs) are central to the economics of Nigerian deepwater projects. New FPSOs are expensive, with a modern 150,000 b/d unit potentially costing more than US$3 billion. As a result, operators are increasingly seeking opportunities to utilise spare capacity on existing facilities.

Several Nigerian deepwater FPSOs currently operate at less than half their designed capacity, creating opportunities for lower-cost tie-back developments. Many project concepts currently under consideration rely on this infrastructure advantage. The strategy allows operators to reduce capital expenditure, shorten development schedules and improve project economics compared with constructing new facilities.

However, this opportunity comes with constraints. Many FPSOs are approaching or have exceeded 20 years of service. Extending operating life may require upgrades and maintenance campaigns that can temporarily reduce production. Operators face a balancing act between extending infrastructure life and limiting production interruptions.

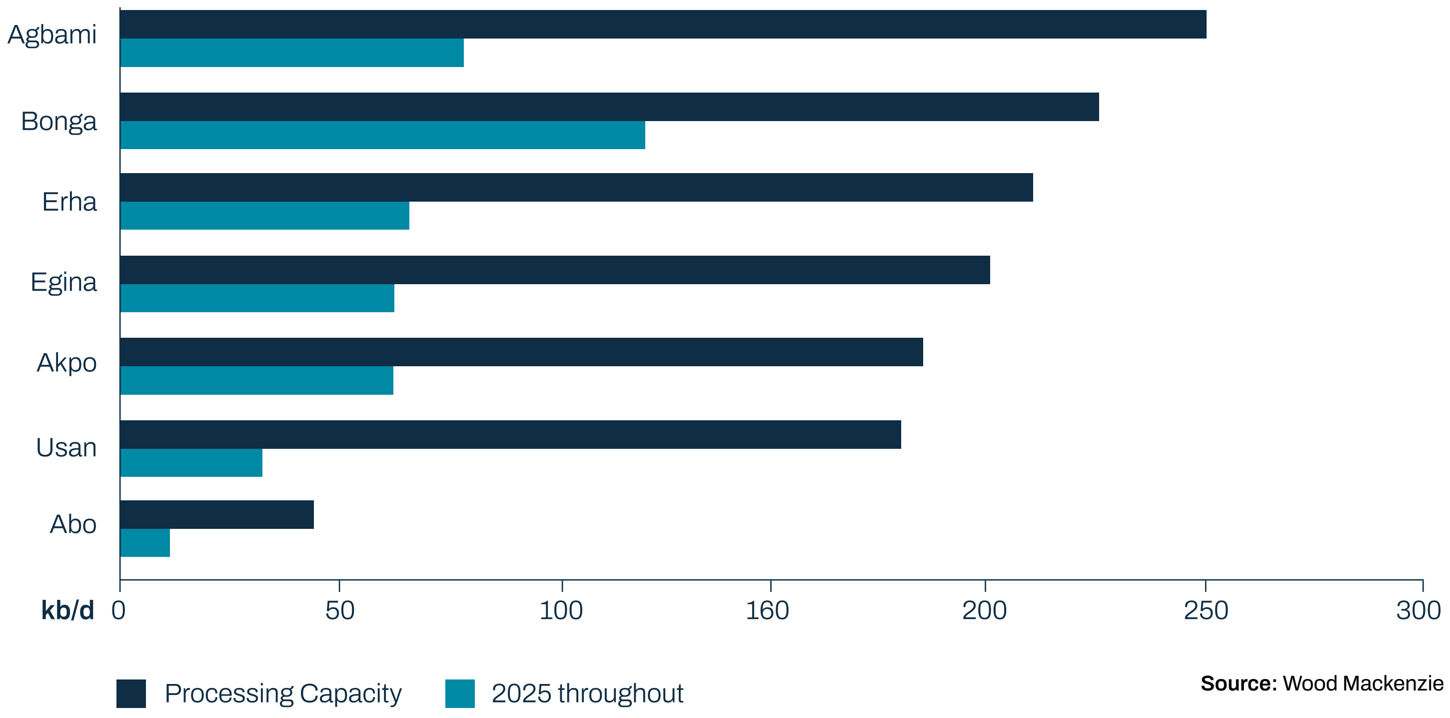
The availability of spare capacity is a time-sensitive opportunity. Delays in project approvals could reduce options for tie-back developments and potentially force operators to pursue more expensive new-build FPSO solutions.

Current FPSOs

FPSO	Block	Operator	Age (Years)
Abo	OML 125	Eni	23
Agbami	PML 52	Chevron	180
Akpo	PML 2	TotalEnergies	17
Bonga	OML 118	Shell	21
Egina	PML 3	TotalEnergies	8
Erha	OML 133	ExxonMobil	20
Usan	OML 138	ExxonMobil	14

Source: Wood Mackenzie

FPSO Utilisation



Source: Wood Mackenzie

Key Development Opportunities

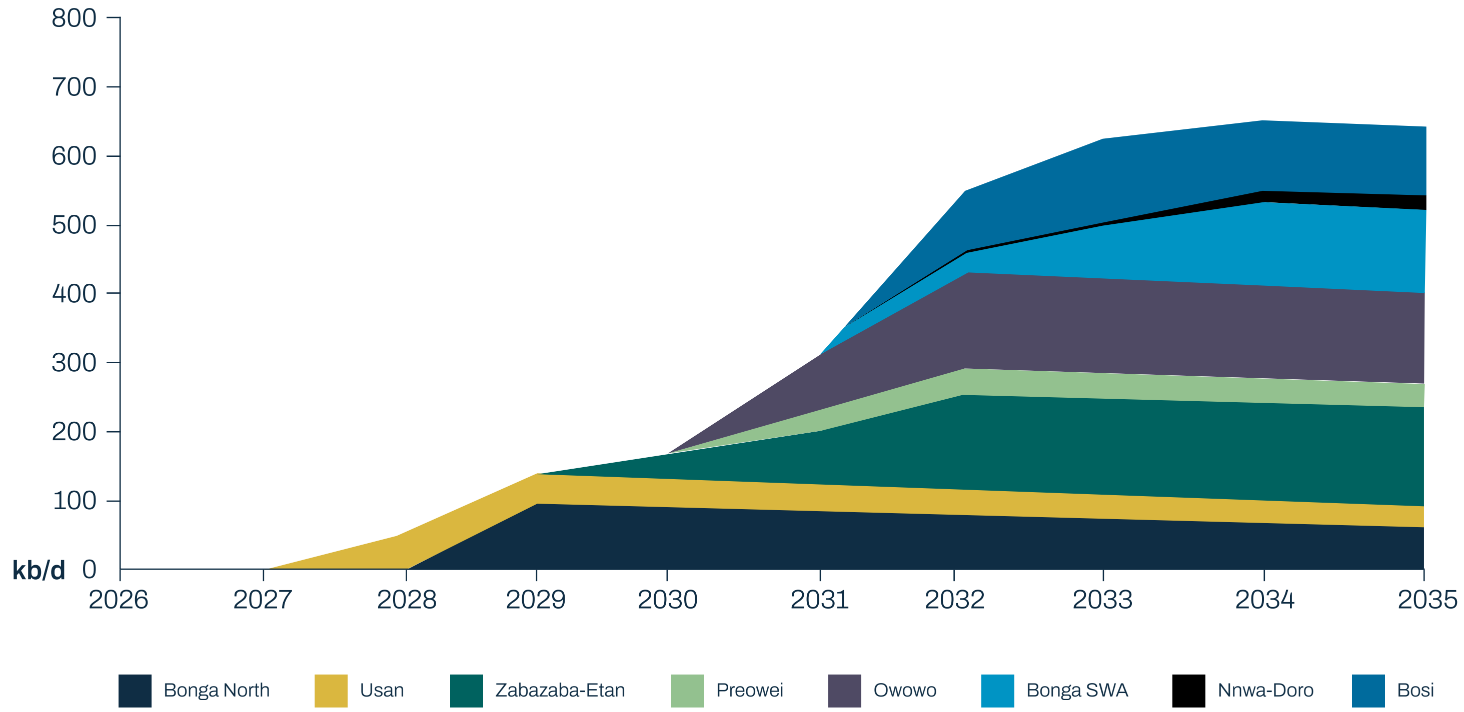
Among the upcoming projects, Bonga North is expected to deliver the earliest production growth. First oil is anticipated in 2028, with peak output exceeding 100,000 b/d of oil and more than 45 mmcfd of gas. By leveraging existing capacity on the Bonga FPSO, the project benefits from relatively favourable economics and reduced execution complexity.

Bonga Southwest-Aparo represents one of the most significant medium-term opportunities. Shell is targeting sanction by 2027, and the development could ultimately produce approximately 150,000 b/d of liquids and over 100 mmcfd of gas. However, the project will require a new FPSO and faces challenges related to partner alignment and unitisation agreements across multiple licence areas.

Eni's Zabazaba and Etan developments constitute another major cluster. The company aims to begin production from Zabazaba in 2029, with Etan subsequently tied back. Together, the projects could reach approximately 150,000 b/d of liquids production and 200 mmcfd of gas while generating around 550 million barrels of oil equivalent over their operating lives. Gas production is intended to supply Nigeria LNG through the Offshore Gas Gathering System. ExxonMobil is also pursuing expansion through Owowo, Usan and later Bosi. Owowo alone could contribute more than 120,000 b/d of liquids production at peak and may benefit from a tie-back to the existing Usan FPSO, reducing development costs and execution risk.

Nnwa-Doro represents a strategically important gas-led opportunity. The project contains approximately 9 tcf of gas resources alongside liquids volumes and could ultimately contribute over 300 mmcfd of gas production together with more than 75,000 b/d of oil and condensate. Recent fiscal improvements have strengthened its commercial prospects.

Deepwater Liquids Production From Future Projects



Source: Wood Mackenzie

Strategic Importance

The broader strategic value of Nigerian deepwater resources is closely aligned with the long-term priorities of major international operators. Shell, TotalEnergies and ExxonMobil have already shifted focus away from Nigerian onshore assets and toward offshore opportunities. As mature assets elsewhere decline, the Majors are increasingly prioritising projects that can sustain production and cash flow beyond 2030.

Nigeria's attractiveness lies in its large discovered resource base. Projects such as Bonga Southwest-Aparo and Zabazaba offer substantial reserve additions without the geological uncertainty associated with frontier exploration. Additionally, the ability to supply gas to Nigeria LNG provides a further strategic benefit for Shell, TotalEnergies and Eni, all of which maintain interests in the LNG venture.

Risks and Key Indicators to Watch

Despite improving fundamentals, execution risk remains the sector's greatest challenge. Several projects have suffered multiple delays in the past, and renewed operator interest alone will not guarantee successful project delivery.

A major obstacle is partner alignment. Many companies have interests in several deepwater projects simultaneously, creating competition for budget and increasing the likelihood of misalignment on investment priorities, timing and project sequencing. Operators may be reluctant to participate in several large Nigerian projects concurrently.

Looking forward, field development plan approvals, unitisation agreements, gas sales agreements and continued portfolio restructuring will provide important signals of progress. Particular attention should be paid to Bonga Southwest-Aparo, Zabazaba, Preowei and Owowo, which are the most advanced candidates for sanction within the next 18 months. Successful approvals before the end of 2027 would provide strong evidence that Nigeria's deepwater recovery is firmly on track.

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As a global leader in analytics, insights and data, we offer an interconnected view across the entire energy and natural resources landscape.

By fusing our unparalleled proprietary data with the sharpest analytical minds, all supercharged by Synoptic AI, we help organisations identify risk sooner, spot opportunity faster and make every decision with complete confidence.

When your intelligence is connected, you lead with clarity.

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