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**Santos urges Harbour Energy to raise its bid**

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Santos chairman Keith Spence said the substantial rise in the oil price since US predator Harbour Energy made its indicative buyout overtures will need to be reflected with a higher proposal if it makes a firm and binding bid after due diligence is finished in the next two weeks.

He said the rise in the oil price and the resulting stronger cash flows made Santos a more valuable company than it was a month ago and Harbour, which made a $13.5 billion indicative takeover proposal in early April, would need to pay up.

"I'd say clearly the oil price impact, of oil price increases in recent times, must have some impact on the perception of value," Mr Spence said after the Santos annual meeting in Adelaide on Thursday. "The business therefore needs to be compensated," he said.

Mr Spence said there had been no negotiations between Santos and Harbour Energy about price. "There's no firm offer on the table," he said. "There's not actually any negotiation going. They're deciding in their own right whether they're going to make a proposal".

Santos also raised the prospect of a return to dividend payments next year after striking a $US221 million ($294.9 million) deal for the sale of its Asian assets, accelerating the pace of debt reduction.

Mr Spence told shareholders that Santos is set to reach its target of cutting net debt to $US2 billion by end-2019 more than a year early, helped by the deal with London-listed Ophir Energy.

Chairing his first annual meeting since taking over from Peter Coates, Mr Spence stressed to shareholders that the Harbour indicative price was at a level at the time which compelled the board to allow due diligence, but highlighted the increases in oil prices since then.The bid was about $6.50 a share when it was made but has since increased because it was made in US dollars. After gains in the greenback, the $US4.98 a share proposal is now worth about $6.64 a share.

Santos shares closed up 1¢ at $6.21, having traded short of Harbour's offer since it was made. The gap reflects doubts the US player will gain foreign investment approval.

Mr Spence said the Foreign Investment Review Board issue was something the Santos board would also need to consider in deliberations on any firm offer. He said if the Santos board recommended an offer but the FIRB blocked the deal, then Santos would be in a difficult position.

"You've got Santos in a very exposed position," he said. He expected the main issues which FIRB would focus on were ownership structures and national security of gas supply.

Chief executive Kevin Gallagher said after the meeting that he would like to continue to run Santos if it had new owners because it had been restructured and repositioned and was now set to benefit from a solid foundation.

"Would I love to finish the journey? Of course I would," Mr Gallagher said.

But he emphasised that if a deal did proceed, it wouldn't be up to him to decide who would run the entity. "It's not a matter for me to decide anyway."

The position of Santos' largest shareholders, two Chinese companies, ENN Holdings and Hony Capital, is crucial for the prospects of a deal.

ENN's representative on the Santos board, Eugene Shi, spoke positively about Santos' prospects, without addressing the Harbour bid.

"Santos is a great company with great people and assets," Mr Shi told shareholders before a vote, which saw 94.5 per cent of shareholders support him as a director. "I believe Santos has a very strong future and we are a long-term investor in the company."

Harbour has structured its proposal to allow the Chinese pair to transfer their interests in Santos to the new unlisted Santos that it would own.

Meanwhile, Mr Spence was grilled by shareholders over the lack of dividends over the past two years and the long-term under-performance of the stock, which traded north of $13 before the oil price started to collapse in mid-2014.

He said the board was doing "everything we can" not to squander $399 million in franking credits which sit within the company and haven't been used after the suspension of payouts to shareholders.

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