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Trading Name: IPS, Inc.
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Questions and Answers from Investors

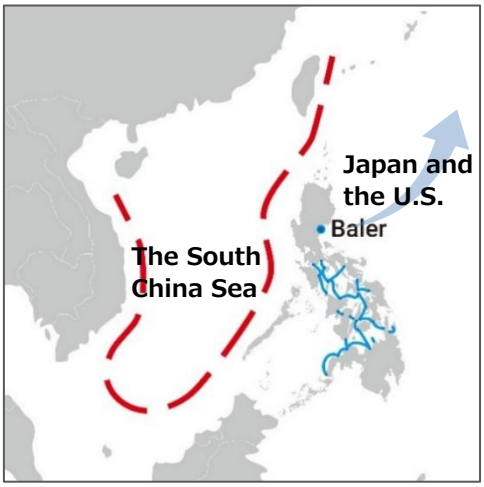
Thank you very much for your continued interest in our company. In relation to the fiscal year ending March 2025, we have received numerous questions from investors regarding the Baler Cable Landing Station (CLS) Project, our Domestic Telecommunications Business, and our dividend policy. In the interest of fair disclosure, we would like to take this opportunity to provide our responses once again and disclose the information as outlined below.

1. Regarding the Baler CLS Project

Our Philippine telecommunications subsidiary, InfiniVAN, Inc. ("InfiniVAN") is currently undertaking our first project to construct a CLS for an international submarine cable in Baler on the eastern coast of Luzon Island, Philippines. This project is not merely a capital investment in infrastructure; it is a strategically important international infrastructure initiative from the perspective of economic security, aimed at establishing a new communications route that directly connects Asia with Pacific Rim countries such as Japan and the United States.

In recent years, submarine cables that pass through the western coast of the Philippines have faced increasing geopolitical risks, due to mounting pressure from China's de facto control efforts based on the so-called “Nine-Dash Line.” There have been reported incidents involving cable damage, delays, and interference, highlighting vulnerabilities in maintenance and operations. Ensuring the reliability of national infrastructure has thus become a pressing international concern.

Overview of the Baler CLS and Surrounding Waters



*The blue line represents the Philippine Domestic Submarine Cable Network (PDSCN), which was completed in December 2023.

In contrast, Baler is located on the eastern coast of the Philippines and provides one of the few viable landing points for communications from Japan and the United States that bypass the geopolitically sensitive South China Sea. This location offers a significant advantage for both national and corporate strategies aimed at enhancing network redundancy and diversification. Its strategic positioning makes it particularly appealing to cloud service providers and large-scale content delivery operators that require high availability and resilience.

A CLS is a terminal facility that connects signals from international submarine cables to domestic networks. It houses telecommunications equipment that converts, amplifies, and branches optical signals into electrical signals, along with security systems, power supplies, and monitoring equipment, making it a crucial "gateway" for international communications. As one of the most strategic points in national telecommunications infrastructure, its installation and operation require licenses and approvals from national governments. In 2021, InfiniVAN obtained authorization from the National Telecommunications Commission (NTC) of the Philippines to construct, operate, and maintain a submarine cable landing station. This marked a groundbreaking case in which a foreign-affiliated telecommunications carrier was granted entry into a field that had long been dominated by major domestic operators, representing a turning point in the country’s telecommunications policy.

InfiniVAN has already obtained a telecommunications license in the Philippines and has established the infrastructure necessary to connect the CLS to data centers via our own fiber-optic network. Furthermore, the Baler CLS is being developed under an “open access” policy, meaning it will not be restricted to any specific telecom carrier. It is expected to become the first CLS in the Philippines where all international carriers can connect on an equal footing.

This policy is highly attractive to major global tech companies that prioritize neutrality in international communications infrastructure. We are already in discussions with several prospective clients, and the aggregation of multiple carriers is expected to concentrate traffic in Baler, increasing its potential to become a new hub for international telecommunications.

The Baler CLS is part of an integrated development plan that envisions the future co-location of a data center specialized in AI processing. This aligns closely with the Philippine government’s national ICT infrastructure strategy. By combining international connectivity with AI infrastructure, the project holds the potential to position the Philippines as a central hub for decentralized cloud platforms in Southeast Asia.

Preparatory work for the project has already begun as of May 2025, and we are currently aiming to commence construction in July 2025 and complete it by the end of June 2026.
Regarding the specific details of the investment, including the landing station, domestic submarine cables, and related facilities, we will provide a timely explanation as soon as we are in a position to disclose such information.

2. Results of Domestic Telecommunications Business

For the fiscal year ended March 2025, our Domestic Telecommunications Business saw steady growth in its core solution services for call center operators, with operating profit expanding from 425 million yen in the fiscal year ending March 2024 to 638 million yen. Meanwhile, regarding interconnection fees (access charges) between telecommunications carriers, we have settled charges related to a large volume of incoming calls to numbers owned by our Group for the past three fiscal years. In the past, settlements for prior years were often minor amounts or even resulted in positive adjustments; therefore, for two of the past three fiscal years, we had not recorded provisions or taken similar accounting measures.

For the fiscal year ending March 2026, we expect a return to operating profitability and view the business as having entered a recovery phase. Our core call center solution business is projected to continue performing steadily, serving as a stable revenue driver. With respect to interconnection revenue, we have already completed the necessary accounting treatments for ongoing negotiations in the previous fiscal year. Accordingly, we do not anticipate any additional retrospective adjustments for prior years going forward. Moreover, our earnings forecast for FY March 2026 is based on conservative assumptions. We believe the business has bottomed out and is now on a path to recovery.

In the fiscal year ended March 2025, we addressed issues involving improper call origination by certain parties, where large volumes of calls were generated using automated systems with the intent of intentionally collecting interconnection fees. Our domestic telecommunications subsidiary, IPS Pro, Inc. (IPSP), was in no way involved in or complicit with such activities. As the receiving carrier, IPSP had no prior means of identifying the motivation or intent behind these calls. Furthermore, due to the strict constitutional protection of the confidentiality of communications, it is extremely difficult for IPSP to determine in advance whether individual calls are inappropriate. Nevertheless, in order to uphold the fairness and integrity of telecommunications, IPSP has made every effort within its capacity by working closely with regulatory authorities and industry stakeholders. In line with the new guidelines issued by the Ministry of Internal Affairs and Communications, IPSP has promptly taken necessary corrective measures, including the termination of service agreements with major agents.

Interconnection fees are, by their nature, payments made for the use of telecommunications networks and are determined within a regulatory framework. Due to their characteristics, interconnection fee revenue is not a high-margin source of income. Therefore, while the decline in interconnection fee revenue has had a certain impact on overall sales volume, we believe that the effect on the Group’s overall profitability is limited. Going forward, our Group will continue to work closely with regulatory authorities and industry stakeholders to ensure fairness and soundness in telecommunications, while striving to provide sustainable services.

3. Dividend Policy

The Company has decided to maintain an annual dividend of 40 yen per share for the three fiscal years from the fiscal year ending March 2026 through the fiscal year ending March 2028.

In the medium-term management plan announced in May 2024, while setting a basic policy of a 20% dividend payout ratio, we outlined growth investment plans including new international submarine cables. However, since then, due to changes in the business environment and progress in specific projects, investment opportunities of a scale and speed exceeding our initial assumptions are anticipated, making preparation for the future increasingly important.

On the other hand, the Company has maintained an average return on equity (ROE) of 27.3% over the past five years, which is significantly higher than the estimated cost of equity capital of approximately 8%. Backed by this high capital efficiency, we have been committed to the sustainable enhancement of corporate value.

Based on this situation, we have concluded that prioritizing limited funds toward high-efficiency growth investments will lead to maximizing shareholder value.

Regarding this revision amid the previously indicated dividend payout ratio target in the medium-term management plan, we recognize that it is essential to provide investors with

an explanation, and hereby restate the background and rationale.

After the end of the dividend freeze period, while basically aiming to return to a dividend payout ratio of 20% or more, we will consider flexible and effective shareholder returns based on absolute profit levels, financial conditions, progress in investment recovery, and other factors.