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Deutsche Telekom proposes steps to make 5G safe as Huawei debate rages

Douglas Busvine, Andreas Rinke



FRANKFURT/BERLIN (Reuters) - Deutsche Telekom proposed a series of measures on Wednesday to ensure that future 5G mobile networks are safe, as debate neared a climax on whether to bar Chinese vendors from Germany on national security grounds.

A Deutsche Telekom logo is seen at the Mobile World Congress in Barcelona, Spain, February 26, 2018. REUTERS/Yves Herman

The move by Europe's largest telecoms firm came as the government held a first high-level meeting on whether to shut out Chinese suppliers led by Huawei following U.S. warnings that their equipment may contain 'back doors' open to cyber-espionage.

The United States has shut Chinese vendors out of government contracts on security grounds, against the backdrop of an escalating trade dispute with Beijing. Ally Australia has barred the Shenzhen-based company from its 5G rollout.

Huawei, the global networks market leader with annual sales exceeding \$100 billion, denies that such security loopholes exist. Deutsche Telekom and its competitors Vodafone and Telefonica Deutschland use Huawei gear extensively and also dismiss the cyber claims as groundless.

"Deutsche Telekom takes the global debate on the security of network equipment from Chinese providers very seriously," the company said in a statement that spelled out three confidence-building measures.

The company, which is nearly one-third state owned, proposed that all critical infrastructure should be independently certified before deployment by an independent laboratory under state oversight.

It also called for network equipment makers to submit the source code that runs their equipment to a trusted third party. Under certain circumstances,

an operator would be able to gain access to address any security vulnerabilities.

Further, it said legal obligations and liability for the security of critical infrastructure should be broadened to cover network vendors in addition to operators, as is the case now.

Huawei, which last November opened its own information security lab in Bonn to allow greater scrutiny of its kit, welcomed the Telekom proposals and said it already cooperated broadly with Germany's BSI cybersecurity watchdog.

“It is up to policymakers, regulators and the industry to work out the details, but such an initiative makes a vital contribution to making the debate about 5G more fact based,” the Chinese company said in a statement.

POLITICAL RISK

While German officials also see no evidence of back doors, some are receptive to arguments that organizations and individuals are required, under China's National Intelligence Law, to aid the state in intelligence work.

“There are some passages (in Chinese law) that worry us. That includes the obligation of Chinese companies to cooperate with intelligence services,” a foreign ministry spokesman told a government news conference earlier.

Huawei and its founder Ren Zhengfei have denied they would ever spy for China, and the company says that the law does not compel it to do so.

A top German former spy saw a risk, however, that in time of war a Chinese vendor could activate a so-called 'kill switch' capable of shutting down critical network infrastructure.

“If this module is shut down in a crisis, we would be absolutely unprepared and could not react,” Gerhard Schindler, former president of the Federal Intelligence Service (BND), told ARD public television.

Germany, a U.S. ally and NATO member, has a close trading relationship with China, and officials were initially less sympathetic to U.S. arguments on the Chinese cyber risks than the English-speaking 'Five Eyes' nations that share intelligence extensively.

Yet after months of debate, senior officials in Chancellor Angela Merkel's administration say a consensus is forming around the idea of tweaking the country's telecoms legislation to exclude Chinese vendors from building 5G networks for reasons of governance.

The operators, which last week applied to take part in a multi-billion-euro auction of 5G spectrum to be held in March, are pushing back hard against the political case for excluding Chinese vendors.

FILE PHOTO: Deutsche Telekom logo is seen during preparations at the CeBit computer fair, whi...

Deutsche Telekom has given the starkest warning, saying that if Huawei is not only barred from future work, but its kit must also be ripped out of existing 4G networks, 5G could be delayed by years.

That would leave Germany lagging its competitors in deploying applications such as ‘connected’ factories in which robots and sensors could communicate directly with each other across campus networks.

Virtual operator 1&1 Drillisch, a unit of United Internet, has applied to take part in the 5G auction and is talking to vendors including China’s ZTE about building and running its network should it bag spectrum in the forthcoming licensing round, sources say.

Reporting by Douglas Busvine; Editing by Riham Alkousaa and Mark Potter

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Wirecard says probes find no evidence of criminal misconduct

Douglas Busvine, John Geddie



FRANKFURT/SINGAPORE (Reuters) - Wirecard and its law firm said on Monday that they had found no conclusive evidence of criminal misconduct by any employee of the company, after the Financial Times last week alleged financial wrongdoing at its Singapore office.

The response lifted shares in the German payments firm by 15 percent at the market open, partly reversing losses of 40 percent last week that were triggered by the FT's allegations of forgery and falsification of accounts.

Munich-based Wirecard had initially dismissed the two FT reports on Wednesday and Friday as "inaccurate, misleading and defamatory".

It issued a more detailed response on Monday, saying that a member of its Singapore team had in April 2018 raised concerns about the alleged actions of a finance team member there.

The company then started an investigation, which found no evidence to support the allegations. "Furthermore, there were indications that the allegations could be related to personal animosity between the employees involved," the company said.

Wirecard hired Singaporean law firm Rajah & Tann for a review which is about to be completed, but which has so far not found evidence of criminal misconduct, the electronic payments company said.

Rajah & Tann, in a statement, confirmed that it had sent a letter to Wirecard on Feb. 3 which stated that its inquiry was ongoing. "To date we have made no conclusive findings of criminal misconduct on the part of any officer or employee of the company," said the letter, posted on Wirecard's website.

Singaporean police on Monday said they were looking into the reports of alleged financial irregularities.

SHORT SELLERS' FAVORITE

Wirecard, founded in 1999, has been a perennial target for speculative short sellers - market players who seek to profit from falls in a company's share price - who have questioned its accounting methods and rapid international expansion.

These speculative attacks have caused huge volatility in Wirecard's stock, though its share price has rebounded repeatedly, with the company last year entering the blue-chip DAX index.

These allegations have not, however, led to any investigations of the company by Germany's financial regulator or state prosecutors. Instead, prosecutors are investigating the short sellers on suspicion of market manipulation.

The Munich state prosecutor's office on Friday said it had found no evidence of the alleged wrongdoing reported by the FT.

Most sell-side analysts are bullish on Wirecard, with 10 out of 28 rating the stock a 'strong buy' and a further 13 a 'buy', according to Refinitiv data. Their median price target is 208 euros - 70 percent above where the stock was trading after it bounced on Monday.

Wirecard said in its statement that the allegations by the Singapore staffer related to potential compliance breaches between 2015 and 2018.

These related to revenues of 6.9 million euros (\$7.9 million) and costs of 4.1 million, as well as an internal transfer of intellectual property worth 2.6 million.

Markus Braun, the CEO of Wirecard and its largest shareholder with a 7 percent stake, played down the latest allegations as a "non-story".

“We have examined everything,” he told the Handelsblatt business daily in an interview.

“There is no risk. We did not have to make any corrections or adjustments to our accounts.”

Wirecard reported on Jan. 30 that its fourth-quarter revenues grew by 40 percent and core earnings by 37 percent, and confirmed its guidance for profits of 740 million-800 million euros (\$847-\$916 million) this year.

Wirecard is set to hold a conference call on Monday at 1300 CET (1200 GMT/2000 Singapore time).

(\$1 = 0.8735 euros)

Additional reporting by Aradhana Aravindan in Singapore and Arno Schuetze in Frankfurt; editing by Jason Neely and Keith Weir

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