REPORT ON THE COMPANY’S BUSINESS OPERATIONS AND ASSETS FOR 2018

Daniel Beneš, Chairman of the Board of Directors and Chief Executive Officer, ČEZ, a. s.

Dear Shareholders, Ladies and Gentlemen:

Please allow me to present to you the key financial results of ČEZ, a. s., and selected events of 2018, as well as CEZ Group’s key substantive and financial ambitions for 2019. This report is based on facts known at March 18, 2019.

See Figure 1 “CEZ Group in 2018” in Annex 1 “Report on the Business Operations and Assets of ČEZ, a. s., for 2018” (the “Annex”)

Another year has passed and I am pleased to observe that our company’s worth has increased again in 2018. CEZ Group is a transparent and stable energy corporation. CEZ Group’s total operating revenues were CZK 184.5 billion in 2018, increasing by CZK 10.8 billion year-on-year after adjustment for methodology changes in IFRS, primarily due to increased sales of energy services. In terms of our 2018 annual performance, we managed to meet expectations for net income and came up a bit short in EBITDA, primarily due to lower generation at our coal-fired power plants.

ČEZ remains one of Europe’s financially healthiest energy companies, as evidenced by its Standard & Poor’s credit rating of A– with a stable outlook and Moody’s credit rating of Baa1 with a positive outlook. The Standard & Poor’s rating of ČEZ has been upgraded by a total of three notches over the years. Prior to becoming the first Central and Eastern European company to enter foreign capital markets and issuing its eurobonds in 1994, ČEZ was assigned its first rating of BBB− by Standard & Poor’s in May 1994. Now it has the same credit rating as, for example, EdF, the France-based European energy giant.

We were also pleased that Institutional Investor assessed ČEZ as having the best investor relations and the best corporate governance system among all utilities in the EMEA region covering Europe, the Middle East, and Africa.

We are successfully implementing our growth strategy focusing on comprehensive energy services for customers. In addition, the growth potential of our ČEZ ESCO in Czechia and Elevion group in Germany is potentiated by the European Union’s long-term goals to cut energy consumption, which is an opportunity for companies offering smart energy solutions. We found this to be a highly promising new energy sector even under Czechia’s conditions. ČEZ ESCO is also becoming a major player in ongoing environmental upgrades to power generation facilities in Czech industry, successfully winning substantial contracts.

As for development investments, I should mention a project for the construction of a heat supply pipe from Temelín to České Budějovice. Only now are we starting to build what the previous generation was considering. The clean heating project for the regional capital was waiting for the first concrete and binding step for over thirty years. We managed to proceed to its final stage together with České Budějovice leaders after extensive difficult negotiations. A contract has been made for twenty years of supply. With Temelín’s heat, the Southern Bohemia region will be able to avoid burning up to 80,000 tons of coal a year and releasing the same amount of carbon dioxide. We consider the heat sector to be highly promising and have made several acquisitions in it in both Czechia and Slovakia.

We are gradually fulfilling a difficult task relating to the generational renewal of employees in electricity generation and distribution in Czechia. Another great challenge is the digitization of distribution networks with transition to smart grids and innovation focusing on the enhancement of our pro-client approach. Investments in the distribution grid in Czechia exceeded CZK 10 billion in 2018 and we are planning even higher investments in 2019.

Our investment fund Inven Capital managed to finalize the sale of its minority share in sonnen in early 2019. The German company, manufacturing battery storage systems, was the fund’s first investment in 2015 and the achieved selling price considerably exceeded our initial expectations.

Rapid development of new technologies continued, ambitious EU goals for 2030 were set, and commodity prices rose significantly in the past year. Wholesale electricity prices increased by almost 50% in 2018, primarily due to the market prices of emission allowances growing by more than 200%. Under its hedging strategy, CEZ Group presells electricity and purchases emission allowances in advance on a long-term basis, which delays the effect of price changes on its financial performance. After years of year-on-year decreases, the realization prices of generated electricity rebounded in the second half of 2018, which is beginning to have a positive effect on CEZ Group's financial performance. Most of the effect will be seen in 2019 and the following years. A key prerequisite is stable generation at nuclear power plants, whose margin is not affected by the growing prices of emission allowances.

Now let me look back in more detail at trends in the wholesale prices of electricity and relevant commodities, which are crucial for the profitability of CEZ Group's generating facilities.

See Figure 2 "Electricity Prices Have Increased since the Beginning of 2018 Primarily due to the Rising Price of CO_2 Allowances" in the Annex

The year 2018 brought a significant increase in electricity prices in the wholesale market. The German baseload price with delivery in 2019 increased from levels of about 30 EUR/MWh at the beginning of the year to many-year highs of 57 EUR/MWh achieved in mid-September. No clear trend was observable for the rest of the year and the prices oscillated between 50 and 55 EUR/MWh. Electricity closed the year at 55 EUR/MWh, which meant a year-on-year increase of 48%. Czech electricity prices imitated German prices with an average premium of 1.4 EUR/MWh above Germany.

Participants in the emission allowance market came to believe in 2018 that the introduction of a Market Stability Reserve (MSR) in 2019 could help resolve accumulated surpluses of allowances and the allowance price thus began reflecting changes in coal and gas prices. It increased from 8.2 EUR/t at the end of 2017 to 25.0 EUR/t at the end of 2018.

What is important for further future developments in commodities and for CEZ Group's future business operations is the course of energy sector regulation. Therefore, I will speak briefly of developments in European regulation in 2018 and the specification of ambitious climate and energy targets for 2030.

See Figure 3 "Climate and Energy Targets Set in Europe for 2030 Are Highly Ambitious" in the Annex

At the level of the European Union, significant progress was made in the adoption of individual legislative acts from the "winter energy package," which is a term for documents bringing about fundamental changes and high climate and energy ambitions for member states' energy sectors. Agreement on a revision to the energy efficiency directive, a revision to the directive on the promotion of the use of energy from renewable sources, and a regulation on the governance of the energy union was achieved in November. As a result, European Union countries should reduce their greenhouse gas emissions by at least 40% from 1990 levels by 2030, achieve at least a 32% share of renewable energy sources in final gross energy consumption, and achieve energy savings of at least 32.5%.

The EU's environmental commitments resulting from the winter package pose a risk to energy companies including ČEZ due to additional expenditures on environmental upgrades but also, in turn, present an opportunity for development. If Europe wants to cut its emissions it cannot do so without significant electrification. According to a Eurelectric study, the share of electricity in energy consumption should rise from 22 to 48%. However, electrification without reduction in emissions from electricity generation would not produce the desired outcome; therefore, CEZ Group intends, in accordance with its commitment, to start generating electricity without any greenhouse gas emissions no later than in 2050.

CEZ Group sees efforts to reach the set climate and energy targets for 2030 as an opportunity to increase its generation margin, considering the potential for growth in the price of emission allowances and a low CO_2 emission factor. However, the set targets unlock the greatest potential for CEZ Group in the field of energy services, in the context of further pressure on energy savings, as well as in the development of renewables.

Dear shareholders, let us now take a closer look at specific figures and results showing CEZ Group's performance in 2018, consolidated for ČEZ, a. s., and its subsidiaries and other affiliates. You can now take a look at a table summarizing the most significant financial indicators for 2018 and comparing them with 2017.

See Figure 4 “CEZ Group Financial Results” in the Annex

Net income, that is, after-tax income, amounted to CZK 10.5 billion in 2018, which is a year-on-year decrease of CZK 8.5 billion. Making this comparison, however, we need to take into account significant nonrecurrent effects that contributed positively to the net income of 2017 in the amount of CZK 7.5 billion. These included, most significantly, an effect of the termination of MOL stockholding of CZK 4.5 billion and the sale of real property in Prague with an effect of CZK 1.1 billion. The net income achieved in 2018 is in full accordance with the Company’s management initial expectation. At the beginning of 2018, CEZ Group estimated net income adjusted for extraordinary effects for the whole year 2018 at a level of CZK 12 to 14 billion, and the value of this indicator reached CZK 13.1 billion.

When describing expenses and revenues, it must be noted that a new IFRS 15 has been in effect since January 1, 2018. It changed the manner in which revenues and expenses are reported where the Group sells electricity in an area in which it does not own the distribution grid. Consequently, the value of expenses and revenues decreased but the modification did not affect overall profit. The amount of operating revenue and operating expense adjustment for this effect in 2017 is CZK 30.8 billion. Another impact of this IFRS was the reclassification of connection fees received from customers until 2009 as retained earnings, where the effect of the standard on the reporting of connection fees amounted to CZK 0.6 billion at the level of 2017 operating revenues.

After adjusting the year 2017 for the above-mentioned changes in IFRS, the 2018 operating revenues of CZK 184.5 billion increased by CZK 10.8 billion year-on-year. There was an increase of CZK 8.5 billion in revenue from the sales of services, primarily from new acquisitions, and an increase of CZK 5.1 billion in the sales of electricity, heat, gas, and coal. In contrast, the year-on-year comparison is negatively affected by a decrease of CZK 2.9 billion in other operating revenues, primarily due to lower revenue from allocated green certificates and the sale of real property in Prague in 2017. Operating expenses amounted to CZK 165.3 billion, increasing by CZK 15.4 billion year-on-year, after adjustment for methodology changes in IFRS, primarily due to an increase of CZK 3.5 billion in personnel costs and CZK 3.0 billion in expenses on fuel and emission allowances.

EBITDA was CZK 49.5 billion, which is 8% less than in 2017.

Other income (expenses) decreased net income by CZK 3.4 billion year-on-year, primarily due to the positive effect of the termination of MOL stockholding and related operations in 2017, amounting to CZK 4.5 billion, and due to higher interest expenses. By contrast, there was a positive effect of a decrease of CZK 2.1 billion in losses from associates and joint ventures.

Return on equity was 4.3% in 2018.

Now I would like to present to you financial results in CEZ Group’s individual business segments.

See Figure 5 “Contribution to 2018 EBITDA by Segment” in the Annex

The Mining segment achieved EBITDA of CZK 3.8 billion, which was CZK 0.3 billion less as compared to 2017. The decrease was primarily due to additions to provisions for mine damage, remediation, and restoration and higher fixed costs.

The Generation—Traditional Energy segment achieved operating income before depreciation and amortization, impairment, and sales of assets—that is, EBITDA—of CZK 16.6 billion, which was a year-on-year decrease of CZK 2.5 billion, primarily due to higher expenses on emission allowances, increasing by CZK 1.3 billion, and higher fixed, primarily personnel costs, increasing by CZK 0.8 billion, but also due to the positive effect of a settlement agreement with Sokolovská uhelná amounting to CZK 0.7 billion in 2017. In contrast, there was a positive effect of increased generation by nuclear power plants amounting to CZK 1.0 billion.

EBITDA in the Generation—New Energy segment was CZK 3.2 billion, which is CZK 1.7 billion less than in the previous year. The main cause was a decrease of CZK 1.5 billion in Romania, primarily due to the valuation of green certificates in relation to a positive regulatory change in 2017 but also due to lower certificate allocation in 2018 and due to lower generation. A decrease of CZK 0.4 billion in Czechia was primarily due to provisioning for a potential refund of proceeds from photovoltaic power plants at Čekanice in the amount of CZK 0.5 billion. By contrast, EBITDA in Poland increased by CZK 0.2 billion, primarily due to lower impairments and lower fixed operating expenses. In Germany, the positive effect of new acquisitions was eliminated by weak weather conditions.

EBITDA in the Distribution segment was CZK 19.7 billion, increasing by CZK 0.7 billion year-on-year. An increase in Czechia was primarily due to higher total allowed revenues, reflecting the growth of investment in distribution grids. The Bulgarian distribution’s EBITDA decreased by CZK 0.3 billion due to lower gross margin on electricity distribution and higher additions to provisions for litigation. The Romanian distribution’s EBITDA decreased by CZK 0.1 billion primarily due to lower tariffs.

EBITDA in the Sales segment was CZK 4.3 billion, down CZK 0.3 billion year-on-year. It decreased in Czechia by CZK 0.2 billion due to lower gross margin on the sales of electricity and gas, reflecting higher purchase prices of commodities. By contrast, there was a positive effect of ČEZ Prodej's lower expenses and the development of activities in energy services. A positive effect was produced by the financial performance of newly acquired companies engaged in energy services in Germany and Poland, where the total increase of the indicator was CZK 0.4 billion. In contrast, it decreased by CZK 0.4 billion in Bulgaria in relation to a negative effect of an out-of-court settlement agreement with the state-owned energy company NEK concerning RES receivables from 2017.

EBITDA in the Other segment was CZK 1.9 billion, primarily due to the year-on-year impact of positive nonrecurrent effects from 2017.

Let us now take a look at changes in CEZ Group's cash flows in 2018.

See Figure 6 "CEZ Group Cash Flows" in the Annex

Cash flows from operating activities amounted to CZK 35.4 billion, decreasing by CZK 10.4 billion year-on-year primarily due to changes in working capital where the primary cause was a year-on-year change in receivables and trade payables.

Cash used in investing activities amounted to CZK 25.9 billion, increasing by CZK 5.7 billion year-on-year primarily due to lower revenue from the sales of assets. This revenue was high in 2017 primarily due to the termination of stockholding at Hungarian company MOL, amounting to CZK 12.0 billion. Proceeds from disposal of subsidiaries, associates, and joint-ventures decreased by CZK 1.9 billion primarily due to sale of the Tisová and Varna power plants. Investments in assets and in the acquisition of subsidiaries and associates decreased by a total of CZK 7.6 billion.

Cash used in financing activities, including the net effect of currency translation in cash and impairments, amounted to CZK 12.8 billion, decreasing by CZK 11.5 billion year-on-year. This was primarily due to the redemption of a convertible bond for MOL shares in 2017, amounting to CZK 12.8 billion.

CEZ Group's net debt increased by CZK 15.2 billion to CZK 151.3 billion in 2018.

See Figure 7 "CEZ Group Assets, Equity, and Liabilities" in the Annex

The value of CEZ Group's consolidated assets increased by CZK 83.5 billion year-on-year to CZK 707.4 billion. Noncurrent assets decreased by CZK 7.5 billion to CZK 480.4 billion. Of that, the net value of property, plant, and equipment decreased by CZK 11.1 billion primarily due to the reclassification of Bulgarian companies as assets held for sale as well as due to fixed asset depreciation and impairments, which exceeded the acquisition of fixed assets. The value of nuclear fuel decreased by CZK 0.8 billion and the value of construction work in progress decreased by CZK 0.2 billion. Current assets increased by CZK 91.0 billion in 2018 due to increased trading.

Equity, including noncontrolling interests, decreased by CZK 15.0 billion to CZK 239.3 billion. The primary cause of the decrease was a change in equity related to dividends awarded to shareholders, which had an effect of CZK 17.6 billion. Another cause was other comprehensive income with an effect of CZK 10.6 billion; in contrast, net income generated in 2018 increased equity by CZK 10.5 billion.

Noncurrent liabilities increased by CZK 8.4 billion to CZK 250.0 billion primarily due to an increase in long-term debt. An increase of CZK 90.2 billion in current liabilities was primarily due to increased payables from short-term derivative trading, including options, and increased trade payables. The total value of bonds issued was CZK 127.7 billion at December 31, 2018, representing a year-on-year increase of CZK 9.6 billion.

I would also like to briefly mention treasury shares held by ČEZ. At the beginning of 2018, there were 3,605,021 treasury shares, representing 0.67% of the stated capital of ČEZ, a. s., held on its asset account with the Central Securities Depository to cover claims arising out of the Company's stock option plan. During 2018, 480,000 shares were used to satisfy the claims of beneficiaries under the Company's stock option plan, corresponding to 0.09% of its stated capital. ČEZ's total receipts from the sales of shares to the beneficiaries were CZK 210.3 million (including interest). At December 31, 2018, the above-mentioned asset account contained 3,125,021 treasury shares, that is, 0.58% of the Company's stated capital.

Let us now take a closer look at capital expenditures in 2018.

See Figure 8 "Investments in Fixed Assets Broken Down by Segment" in the Annex

CEZ Group's total capital expenditures amounted to CZK 26.4 billion.

The highest expenditure, totaling CZK 12.9 billion, was made on distribution assets. This included CZK 10.4 billion in Czechia, where capital expenditures were made on the renovation and development of grids at all voltage levels, including automated grid control. In the area of new technologies, capital expenditures were made primarily on projects for the installation of remotely controlled elements in medium-voltage grids, followed by projects for the installation and addition of metering equipment at distribution substations.

A total of CZK 8.0 billion was invested within the Generation—Traditional Energy segment. Nuclear power plants continued working in 2018 on projects started in previous years that are aimed at the enhancement of nuclear safety and equipment renovation, in addition to routine maintenance. At the same time, investment preparation, implementation, and completion work was commenced in relation to the extension of operation of the Dukovany Nuclear Power Plant. As follow-up to an agreement for the construction of a hot water line and the supply of heat from the Temelín Nuclear Power Plant to the city of České Budějovice, approximately 30 km away, work was commenced on a heat supply pipe that will allow optimum utilization of the increased capacity of the power plant's generating units. In conventional energy, preparatory, designing, and implementation work aimed primarily at environmental upgrades continued in 2018, in addition to running maintenance. The aim is to prepare the respective units so that they can meet the new emission limits applicable pursuant to legislation from August 2021. At hydroelectric power plants, a number of capital projects were carried out to renovate or upgrade the facilities and improve their generation efficiency after approximately 25 years of operation.

CEZ Group also continued with the preparation of projects for the two nuclear facilities. Cooperation was given to the Standing Committee on Nuclear Energy Development in the Czech Republic, which prepared documents named "Procedure for the Preparation and Construction of New Nuclear Power Plants at Dukovany and Temelín" and "Analysis of Selected Investment Models for the Construction of New Nuclear Power Plants and the Manner of Their Financing." Consultation meetings with potential contractors were held under the leadership of the Czech Ministry of Industry and Trade. A concept was prepared for engineering support for the initial project stage and complete draft inquiry specifications were prepared for the selection of a power plant contractor and fuel for both the Dukovany and the Temelín projects.

In the next part, I would like to inform you about developments in electricity generation.

See Figure 9 "CEZ Group Electricity Generation" in the Annex

CEZ Group generated 63.1 TWh of electricity in 2018, up 0.2 TWh year-on-year. Generation in Czechia, amounting to 58.8 TWh, was up 0.4 TWh as compared to 2017. The largest increase in generation, 1.6 TWh, was reported by nuclear power plants. Coal-fired power plants generated 1.2 TWh less year-on-year primarily due to outages during the replacement of generators at the Prunéřov II power plant and lower generation by the Dětmarovice power plant after a 2017 fire. Generation at other facilities decreased primarily due to lower rainfall and worse weather conditions in 2018.

More than half of electricity generated by CEZ Group in 2018 originated from zero-emission sources. CEZ Group thus continues with efforts resulting in its commitment to generate electricity without CO2 emissions no later than by 2050.

We estimate that CEZ Group will generate approximately 69 TWh of electricity in 2019, of which nuclear power plants are expected to generate 31.2 TWh, up 1.3 TWh year-on-year, and coal-fired plants 29.3 TWh, which is 2.3 TWh more than in 2018.

Now, dear shareholders, I would like to briefly discuss the financial performance and selected indicators of ČEZ, a. s., alone, and also mention the Company's dividend policy.

See Figure 10 "ČEZ, a. s., Financial Results and Dividend Policy" in the Annex

ČEZ, a. s., had net income of CZK 23.8 billion in 2018, up CZK 18.7 billion year-on-year. The increase was mainly due to an increase of CZK 17.1 billion in dividends received and a decrease in additions to impairments with effect of CZK 3.3 billion. In contrast, the year-on-year comparison was negatively affected by nonrecurrent positive effects from 2017, such as the sale of real property in Prague amounting to CZK 1.1 billion and a settlement agreement with Sokolovská uhelná with an effect of CZK 0.7 billion.

The value of assets held by ČEZ, a. s., at December 31, 2018, was CZK 626.1 billion. Equity as at the same date amounted to CZK 183.2 billion. Return on assets was 4.1% and return on equity was 12.8%.

ČEZ's market capitalization increased by CZK 20.9 billion, that is, by 7.9 percent, in the past year.

The annual shareholders' meeting, which was held on June 22 and 23, 2018, decided to pay a dividend for 2017 of CZK 33 per share before tax. The share of profit to be distributed among shareholders was CZK 17.8 billion, of which CZK 17.6 billion was to be paid out, representing 93.1% of consolidated net income or 85.3% of consolidated adjusted net income.

Starting from 2015, ČEZ, a. s., applied a dividend policy that anticipated paying out 60–80% of consolidated net income adjusted for extraordinary effects generally unrelated to ordinary financial performance in a given year. The payout ratio was temporarily increased in 2017 to 60–100% of consolidated adjusted net income until the Company's development strategy is refined.

Let us now turn our attention to selected events on the foreign markets on which CEZ Group operated in 2018.

See Figure 11 "CEZ Group Presence in European Markets" in the Annex

In 2018, CEZ Group implemented its strategy abroad, focusing on countries with a stable regulatory environment and the optimization of capital and ownership structure with the aim of limiting risk exposure in selected regions. It also endeavored to acquire assets in renewables, distribution, and sales of energy and related products to end-use customers.

In France, CEZ Group started the construction of its first wind farm in the country, specifically at Aschères-le-Marché[1], with an installed capacity of 13.6 MW. The commencement of commercial generation is planned for the second half of 2019. Four other projects have already received construction and operation permits. CEZ Group acquired other onshore wind-farm projects in France in January 2019, with a potential total installed capacity of up to 119 MW. It acquired the wind farms in a stage of advanced development.

CEZ Group also kept developing renewable generation in Germany. In 2018 and early 2019, CEZ Group established joint ventures with the aim of developing onshore wind projects with a planned capacity of up to 193 MW. CEZ Group also grew in the German energy services sector. Through the Elevion group, acquired in 2017, it completed two small acquisitions of companies providing building automation services and, in January 2019, an acquisition of En.plus, a company specializing in designing and installing air-handling and cooling systems. CEZ Group also acquired Kofler Energies, a German group providing a broad range of ESCO services, with the aim of acquiring a growth platform also for energy solutions.

In Slovakia, CEZ Group began to actively offer energy services of its Czech companies in 2018, with specific profiling of products offered and customers. It leverages synergies and experience from Czechia for this. It also strengthens its position in the Slovak market through acquisition growth—the most significant completed transaction was the acquisitions of companies that own and operate city heating systems in Nové Zámky and Prešov and provide related energy services. There were also successful acquisitions of companies focusing on local distribution systems.

CEZ Group also expanded its offering of services and energy solutions in Czechia in 2018, through both organic and acquisition growth. To improve services and care for individually served customers, their contracts were transferred from ČEZ Prodej to ČEZ ESCO as of September 1. As a result, these customers with potential to purchase additional energy services are now served only by ČEZ ESCO, regardless of the products delivered.

Several companies operating local electricity, gas, and heat distribution systems were acquired in Czechia in 2018. Domat Holding, a supplier of energy management systems for buildings, was purchased as well. We completed the acquisition of TENAUR, a company specializing in the delivery and installation of heat pumps with autonomous remote access for supervision and monitoring. This acquisition is a basis for further development of the relevant technologies within CEZ Group and their integration with other technologies such as photovoltaic panels and connected battery systems.

The process of selling CEZ Group's Bulgarian assets continued in Bulgaria. We concluded an agreement to sell them to Bulgarian company Inercom. However, the transaction was disapproved by the Bulgarian Commission for Protection of Competition. An administrative action was brought against the decision by both Inercom and ČEZ. Nevertheless, ČEZ entered into parallel negotiations with other prospective buyers of the Bulgarian assets. ČEZ also filed a complaint with the European Commission and proceeds with an international arbitration against the Bulgarian state in parallel.

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[1]Pronunciation: *ah-sher loh mar-sheh*

Now, let us take a look at our financial estimates for 2019.

See Figure 12 "CEZ Group Estimates 2019 Net Income at CZK 17–19 Billion, EBITDA at CZK 57–59 Billion" in the Annex

As at March 18, 2019, CEZ Group estimated its 2019 consolidated net income at CZK 17 to 19 billion. The estimated year-on-year increase is primarily due to estimated increase in EBITDA, that is, consolidated operating income before depreciation and amortization, impairments, and asset sales. In contrast, there will be a negative effect of 2018 nonrecurrent revenue from refunded interest on tax on emission allowances for 2011 and 2012 as well as increased depreciation and amortization and income tax. The EBITDA for 2019 was estimated by CEZ Group, as at March 18, 2019, to amount to CZK 57 to 59 billion, which is a year-on-year increase of approximately CZK 8.5 billion, approximately 17% more than the actual 2018 figure.

To indicate CEZ Group's estimated economic position in 2019, I will now present to you the main causes of year-on-year change in operating financial results using the EBITDA indicator broken down by the new segment structure applicable since January 1, 2019.

The Mining segment is estimated to grow by CZK 0.7 billion year-on-year thanks to higher production and increase in coal prices. The Generation—Traditional Energy segment is estimated to grow by CZK 7.0 billion year-on-year, due to anticipated positive effect of higher realization prices of generated electricity, including the effects of hedges, and increased generation by nuclear and coal-fired power plants. Conversely, negative effects will include higher expenses on emission allowances. The Generation—New Energy segment is estimated to grow by CZK 1.2 billion year-on-year, primarily due to higher electricity prices and higher generation by wind farms in Romania; the estimate also takes into account the provision for a potential refund of proceeds from the Čekanice photovoltaic power plant created in 2018. The Distribution segment is estimated to drop by CZK 0.5 billion year-on-year, primarily due to higher expenses on repairs of distribution infrastructure, lower settlement of unbilled electricity in Czechia, and higher fixed operating costs in Romania. No significant year-on-year change is expected in the Sales segment as an increase in comprehensive energy services will be offset by lower gross margin on electricity sales due to higher purchase prices for deliveries in 2019. The Support Services segment, which is a new name for the previous Other segment, is estimated to grow by CZK 0.2 billion year-on-year due to the new IFRS 16 concerning leases.

The main reasons for using an interval for the prediction of CEZ Group's 2019 EBITDA and net income are, in particular, risks and opportunities relating to the availability of generating facilities; new development acquisitions; legal disputes, especially with SŽDC; and the realization of the sale of Bulgarian assets.

The 2019 net income of the parent company, ČEZ, a. s., is estimated at approximately CZK 17 to 19 billion, the bulk of which consists of expected dividends received from subsidiaries.

CEZ Group estimates its 2019 capital expenditures at CZK 35.4 billion, with most of them planned to be invested in generation and distribution assets in Czechia.

In conclusion, let us summarize CEZ Group's key substantive objectives and challenges in 2019.

See Figure 13 "Key Substantive Objectives for 2019" in the Annex

The Operations team's key objective is to ensure operational security and optimum availability for all generating facilities, prepare an increase in nuclear generation to over 31 TWh a year, and ensure the long-term operation of the nuclear facilities, including continued work on projects for the construction of new nuclear power plants. The Development team's primary task is to prepare the Czech distribution system for advancements in decentral generation, electricity storage, and electric mobility, with an ambition to increase ESCO sales to over CZK 20 billion while enhancing the sales efficiency and cost efficiency of sales companies.

At the level of the whole Group, we will be faced with the task of completing the "Centralized and Supporting Activities Redesign & Optimization" project with a gain of approximately CZK 0.5 billion a year and with approximately 15–20% estimated staff reduction in central and supporting units. In terms of strategy, we are faced with the task of giving qualified consideration to taking up ČEZ's option to cancel the sale of the Počerady coal-fired power plant. The debate about how Czechia chooses to prepare the construction of new nuclear power plants and what role CEZ Group will play in this will continue in 2019.

What to say in conclusion? I assume that the energy market will continue to be affected by persisting regulatory uncertainty and rapid technological advancement in 2019. It remains our task to take care of the traditional energy segment, that is, nuclear, coal-fired, and hydroelectric power plants, and of further growth in the new energy segment, most importantly through promising smart energy solutions for customers.

Thank you for your attention and for your interest in what's happening at ČEZ.

Annex 1 Report on the Business Operations and Assets of ČEZ, a. s., for 2018