ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2020 Financial Overview

Impact of Coronavirus (COVID-19)

COVID-19 has been declared a global health pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions of the world, which has driven the implementation of significant, government-imposed measures to prevent or reduce its spread, including travel restrictions, testing regimes, closing of borders, "stay at home" orders and business closures. As a result, we have experienced an unprecedented decline in the demand for air travel, which has resulted in a material deterioration in our revenues. While our business performed largely as expected in January and February of 2020, a severe reduction in air travel starting in March 2020 resulted in our total operating revenues decreasing approximately 62% in 2020 as compared to 2019. While the length and severity of the reduction in demand due to the COVID-19 pandemic is uncertain, we expect our results of operations for 2021 to be severely impacted.

We have taken aggressive actions to mitigate the effects of the COVID-19 pandemic on our business including deep capacity reductions, structural changes to our fleet, cost reductions, and steps to preserve cash and improve our overall liquidity position. We remain extremely focused on taking all self-help measures available to manage our business during this unprecedented time, consistent with the terms of the financial assistance we have received from the U.S. Government under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021 (PSP Extension Law).

Capacity Reductions

We have significantly reduced our capacity (as measured by available seat miles), with 2020 flying decreasing by 50% year-over-year. Domestic capacity in 2020 was down 41% year-over-year while international capacity was down 68% year-over-year.

We also reset our international capacity and network for 2021 in response to the severe decline in demand. We have exited 19 international routes from six hubs. These changes will allow us to operate more efficiently when demand returns.

We currently expect our first quarter 2021 system capacity to decrease by 45% as compared to the first quarter of 2019. The demand environment continues to be uncertain as COVID-19 cases have continued to fluctuate in jurisdictions to which we fly and travel restrictions have generally remained in place. Due to this uncertainty, we will continue to adjust our future capacity to match observed booking trends for future travel and make further adjustments to our capacity as needed.

Fleet

To better align our network with lower passenger demand, we accelerated the retirement of Airbus A330-200, Boeing 757, Boeing 767, Airbus A330-300 and Embraer 190 fleets as well as certain regional aircraft, including certain Embraer 140 and Bombardier CRJ200 aircraft. These retirements remove complexity from our operation and bring forward cost savings and efficiencies associated with operating fewer aircraft types. See Note 1(g) to AAG's Consolidated Financial Statements in Part II, Item 8A for further information on the accounting for our fleet retirements. Due to the inherent uncertainties of the current operating environment, we will continue to evaluate our current fleet and may decide to permanently retire additional aircraft. In addition, we have placed a number of Boeing 737-800 and certain regional aircraft into temporary storage.

Cost Reductions

We moved quickly to better align our costs with our reduced schedule. In aggregate, we estimate that we reduced our 2020 operating and capital expenditures by more than $17 billion. These savings were achieved primarily through capacity reductions. In addition, we implemented a series of actions, including the accelerated fleet retirements discussed above as well as reductions in maintenance expense and $700 million in non-aircraft capital expenditures through less fleet modification work, the elimination of ground service equipment purchases and pausing non-critical facility investments and information technology projects. We also suspended all non-essential hiring, paused non-contractual pay rate increases, reduced executive and board of director compensation, implemented voluntary leave and early retirement programs and decreased our management and support staff team, including officers, by approximately 30%. In total, more than 20,000 team members have opted for an early retirement or long-term partially paid leave. Additionally, we have made reductions in marketing, contractor, event and training expenses as well as consolidated space at airport facilities.