

## Managing Exchange Risk and Cost Leadership: How Ryanair's International Financial Strategy Supports Its Low Cost Model

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### ABSTRACT

This paper examines how Ryanair Holdings plc manages international financial risks and how these practices support the sustainability of its low-cost business model. Using a qualitative case-study approach, the analysis combines Ryanair's public disclosures (annual reports and SEC Form 20-F) with academic literature on airline finance and hedging. The paper identifies Ryanair's key exposure channels as transaction exposure arising from a currency mismatch between predominantly euro and pound revenues and US dollar-linked input costs, economic exposure affecting long-run cost competitiveness under persistent exchange-rate shifts and translation exposure with secondary relevance for operational performance. It further documents Ryanair's conservative hedging strategy, primarily implemented through jet fuel forward swaps and foreign exchange forward contracts designated as cash flow hedges. These instruments aim to stabilize costs and cash flows over the booking horizon, thereby enhancing cost predictability in a pricing environment characterized by low fares and limited margin buffers. The findings suggest that risk management functions as a strategic complement to operational efficiency by supporting cost leadership, while also highlighting that hedging mitigates short-term volatility but cannot eliminate medium- to long-term exposure to sustained fuel price or currency movements.

**KEYWORDS:** Ryanair; Hedging; Futures contracts; Forward

### 1. INTRODUCTION

Ryanair Holdings plc is one of Europe's leading low-cost airlines and operates an extensive short-haul network across numerous European countries (Ryanair Holdings plc, 2024; Ryanair Holdings plc, 2025). The company's business model is built around strict cost leadership, aiming to offer consistently low fares while maintaining high passenger volumes. This strategy relies on operational efficiency, a standardized fleet structure and tight cost control across all areas of operation (Ryanair Holdings plc, 2024).

Sustaining such a low-cost model requires a high degree of cost predictability in an industry characterized by volatile input prices and intense competition. Narrow operating margins and aggressive pricing strategies leave limited scope to absorb unexpected cost shocks, meaning that financial volatility can quickly affect profitability and competitive positioning (Merkert & Swidan, 2019).

As a result, financial risk management plays a central role in Ryanair's business model. The company actively applies structured risk management policies to stabilize operating costs and cash flows and to limit the impact of external market volatility on its financial performance (Ryanair Holdings plc, 2024; Ryanair Holdings plc, 2025; Lin et al., 2022). Effective international financial management therefore constitutes a structural requirement rather than an optional activity for maintaining Ryanair's lowfare strategy.

The objective of this paper is to analyze how Ryanair manages international financial risks arising from its cross-border operations, with a particular focus on exchange rate risk and fuel price risk. The paper examines the role of financial hedging instruments in supporting cost stability and predictable cash flows and explores how effective financial risk management enables Ryanair to sustain its low-cost pricing strategy over time (Merkert & Swidan, 2019; Lin et al., 2022).

## **2. THE INTERNATIONAL FINANCIAL ENVIRONMENT**

The airline industry operates within a highly integrated international financial environment in which operational activities are closely connected to global capital, currency and commodity markets. Core production factors such as aircraft, fuel and long-term financing are sourced internationally and are priced according to standardized global market conventions rather than national market structures. As a result, airlines are inherently exposed to developments in international financial markets, even when their route networks are largely regional in scope (Doganis, 2019).

The globalization of financial markets has fundamentally shaped airline financing structures. Aircraft acquisition and fleet expansion require substantial long-term capital, which airlines typically raise through international leasing companies, bank loans and bond markets rather than internal funds alone (Doganis, 2019). These financing arrangements are largely standardized across the industry and predominantly denominated in US dollars, reflecting common contractual practices applied by aircraft manufacturers and international lessors (Doganis, 2019). As a consequence, airlines' cost structures are closely linked to developments in international currency and capital markets, largely independent of the currency composition of their revenues. Exchange rate movements, interest rate conditions and global credit availability directly influence operating costs, balance sheet positions and investment decisions across the industry (Doganis, 2019; Merkert & Swidan, 2019).

For low-cost carriers, this international financial exposure has particularly strong implications. Their business models rely on strict cost leadership, high asset utilization and aggressive pricing strategies, which leave limited flexibility to absorb unexpected cost increases (Doganis, 2019; Merkert & Swidan, 2019). Even moderate changes in exchange rates or financing conditions can therefore have a disproportionate impact on profitability and pricing capacity. Financial volatility thus represents not only a short-term earnings risk, but a structural challenge to the sustainability of the low-cost business model, making effective financial management a core requirement rather than a discretionary choice (Doganis, 2019).

Against this background, international financial markets play a dual role for Ryanair: they constitute a key source of financial risk while simultaneously providing the instruments through which these risks can be actively managed (Doganis, 2019; Merkert & Swidan, 2019).

## **3. EXCHANGE EXPOSURE IN RYANAIR'S OPERATIONS**

Ryanair's international operations give rise to multiple forms of exchange rate exposure that are directly embedded in the company's revenue and cost structure (Ryanair Holdings plc, 2024; Ryanair Holdings plc, 2025). Exchange rate movements affect the company not only through immediate transaction-related cash flows, but also through longer-term effects on competitiveness and reported financial outcomes (Merkert & Swidan, 2019). Ryanair's exchange exposure can be differentiated into transaction exposure, economic exposure and translation exposure, each of which affects the company through distinct channels (Merkert & Swidan, 2019).

### **3.1 Transaction Exposure**

In price-intensive industries with low margins and predetermined pricing structures, transaction exposure is critical because short-term exchange rate movements can directly impact operating profitability without the possibility of immediate price adjustments (Merkert & Swidan, 2019). Transaction exposure arises from contractual cash flows in foreign currencies that are settled at a later date (Merkert & Swidan, 2019). Ryanair generates the majority of its revenues in euros, which accounted for approximately 66 % of total revenues in FY25, while around 22 % of ticket sales were denominated in British pounds due to the company's strong operational presence in the United Kingdom (Ryanair Holdings plc, 2025, Ryanair Holdings plc SEC Form 20F, 2025). In contrast, virtually no revenues are generated in US dollars. On the cost side, however, a substantial share of operating expenses is denominated in US dollars, reflecting global industry pricing conventions in fuel procurement, aircraft leasing and parts of maintenance and technical services (Ryanair Holdings plc, 2023; Ryanair Holdings plc, 2024).

As a result of this currency mismatch, Ryanair is structurally exposed to fluctuations in the EUR/USD and GBP/USD exchange rates at the transactional level (Ryanair Holdings plc, 2024). An appreciation of the US dollar increases operating costs when translated into euros, even if passenger demand and operational efficiency remain unchanged (Merkert & Swidan, 2019). Since fuel and aircraft-related expenses account for a significant portion of total operating costs, exchange rate fluctuations can have a significant impact on short-term cash flow and operating margins (Merkert & Swidan, 2019, Ryanair Holdings plc, 2024; Ryanair Holdings plc SEC Form 20-F, 2025). Company disclosures indicate that approximately 40 % of Ryanair's operating cost base is directly or indirectly linked to US dollar denominated inputs, underlining the economic relevance of transaction exposure for the company's financial performance (Ryanair Holdings plc, 2025, Ryanair Holdings plc SEC Form 20-F, 2025).

### **3.2 Economic Exposure**

Beyond short-term transactional effects, Ryanair is exposed to economic risks arising from the long-term impact of exchange rate movements on its competitive position (Merkert & Swidan, 2019). From an industry-wide perspective, persistent exchange rate changes can alter relative cost structures between airlines operating in different currency environments and thereby influence competitive dynamics over time (Malighetti et al., 2009). A sustained appreciation of the US dollar increases Ryanair's cost base relative to competitors that benefit from alternative revenue or cost currency structures. This effect is particularly critical for a low-cost carrier whose competitive advantage relies on maintaining structurally low unit costs and limited pricing flexibility (Merkert & Swidan, 2019; Malighetti et al., 2015). Ryanair's exposure to economic risk is amplified by its aggressive pricing strategy, reflected in an average fare of approximately €46 in FY25, which limits the company's ability to absorb sustained cost increases without affecting demand (Ryanair Holdings plc, 2025, Ryanair Holdings plc SEC Form 20-F, 2025).

Economic exposure is further amplified by exchange rate volatility associated with Brexit, particularly with regard to revenues generated in British pounds (22 %) (Ryanair Holdings plc, 2024, Ryanair Holdings plc SEC Form 20-F, 2025). Fluctuations in the GBP/EUR exchange rate affect the purchasing power of UK-based passengers and can influence demand patterns, pricing decisions and route profitability over time (Evangelinos et al., 2025). These developments illustrate that exchange rate movements can shape Ryanair's competitive environment even in the absence of direct contractual currency mismatches, highlighting the strategic dimension of economic exposure (Merkert & Swidan, 2019).

### **3.3 Translation Exposure**

In addition to transaction and economic exposure, Ryanair is subject to translation exposure arising from the consolidation of financial statements of foreign subsidiaries into the group's reporting currency (Merkert & Swidan, 2019). The company operates several legally distinct entities across different European jurisdictions, whose financial results must be translated into euros for the purposes of consolidated financial reporting (Ryanair Holdings plc, 2024). Exchange rate movements can therefore affect reported assets, liabilities and equity without generating corresponding cash flow effects (Merkert & Swidan, 2019). While translation exposure does not directly influence operational performance, it can affect reported financial ratios and balance sheet positions that are relevant for investors and creditors (Ryanair Holdings plc, 2024). For Ryanair, translation exposure is of secondary importance compared to transaction and economic exposure, but remains relevant for financial reporting transparency and external communication (Ryanair Holdings plc, 2024).

### **3.4 Interim Assessment**

Taken together, Ryanair's exchange exposure reflects a structural characteristic of its international business model rather than a temporary financial imbalance (Malighetti et al., 2009). Transaction exposure primarily affects short-term cash flows and operating costs, while economic exposure shapes longer-term competitiveness in international airline markets (Merkert & Swidan, 2019). Translation exposure mainly influences reported financial outcomes without altering underlying economic fundamentals (Merkert & Swidan, 2019). These different forms of exchange exposure explain why Ryanair places strong emphasis on financial risk management and structured hedging activities. The following section therefore examines how Ryanair employs financial instruments to manage these exposures and stabilize costs in a volatile international market environment (Ryanair Holdings plc, 2025).

## **4. Hedging and Financial Instruments**

Ryanair applies a clearly defined and conservative hedging policy that is closely aligned with its low-cost business model. According to the company's disclosures, derivative instruments are used exclusively for risk management purposes and are linked to forecast operational requirements rather than speculative objectives (Ryanair Holdings plc, 2023; Ryanair Holdings plc, 2024). The primary objective of Ryanair's hedging activities is therefore not profit maximization, but the stabilization of operating costs and cash flows in an industry characterized by high input price volatility (Ryanair Holdings plc SEC Form 20-F, 2025).

Hedging decisions are centralized and based on detailed forecasts of fuel consumption, foreign currency requirements and other contractually fixed future payments.

### **4.1 Fuel Price Exposure and Hedging**

Fuel costs constitute Ryanair's largest operating expense, accounting for approximately 45 % of operating costs in FY24 and 42 % in FY25 (Ryanair Holdings plc SEC Form 20-F, 2025). Ryanair therefore uses an extensive fuel hedging program aimed at mitigating short-term fuel price volatility (Ryanair Holdings plc SEC Form 20F, 2025).

Fuel hedging is primarily conducted through jet fuel forward swap contracts, and occasionally through fuel call options. These instruments allow Ryanair to exchange the difference between a fixed fuel price and the prevailing market price at a future date, thereby stabilizing fuel costs over the hedging horizon. Historically, Ryanair has hedged fuel requirements for periods of 12 to 18 months in advance. In FY25, approximately 78 % of fuel requirements were hedged (FY24: 84 %). As of March 31, 2025, the company had hedged around 77 % of its estimated FY26 fuel needs at prices of approximately USD 774 per metric ton, and 13 % of FY27 requirements at approximately USD 685 per metric ton (Ryanair Holdings plc SEC Form 20-F, 2025).

Despite these hedging activities, Ryanair explicitly acknowledges that fuel hedging can only cushion the impact of fuel price increases in the short term and cannot eliminate exposure to sustained increases in jet fuel prices over the medium to long term. This is reflected in the fair-value movements of outstanding hedging contracts. At March 31, 2025, unrealized losses on fuel forward swap contracts amounted to €201 million, compared to an unrealized gain of €190 million at March 31, 2024 (gross of tax). Sensitivity analysis further indicates that a change of USD 1 per metric ton in the average annual jet fuel price would affect Ryanair's fuel costs by approximately €1 million, highlighting the economic significance of fuel price risk even in the presence of hedging (Ryanair Holdings plc SEC Form 20-F, 2025).

Overall, fuel hedging functions as a form of cost insurance that reduces earnings volatility and supports Ryanair's ability to maintain stable pricing, rather than as a mechanism to eliminate fuel price risk entirely (Merkert & Swidan, 2019).

#### **4.2 Foreign Currency Exposure and Hedging**

Because a significant share of operating costs is denominated in US dollars, Ryanair is structurally exposed to EUR/USD exchange rate fluctuations (Ryanair Holdings plc SEC Form 20-F, 2025).

To manage this currency mismatch, Ryanair hedges a substantial portion of its forecast US dollar cash outflows using foreign exchange forward contracts, primarily EUR/USD forwards. In FY25 and FY24, these instruments were used to hedge expected fuel, maintenance and insurance costs. As of March 31, 2025, the total unrealized gain on outstanding FX forward contracts amounted to approximately €80 million, compared to €86 million in the previous year. These contracts are designated as cash flow hedges and are structured to match the amount, currency and maturity of the underlying forecast expenses, contributing to their high hedge effectiveness (Ryanair Holdings plc SEC Form 20-F, 2025).

In addition to income-statement exposure, Ryanair has historically used crosscurrency interest rate swaps to manage balance-sheet exposures related to US dollar-denominated floating-rate debt. These instruments were designed to convert US dollar and floating-rate exposures into euro-denominated fixed-rate obligations. All such contracts matured in FY24, reflecting Ryanair's reduced exposure to floating-rate foreign currency debt (Ryanair Holdings plc SEC Form 20-F, 2025).

Sensitivity analysis illustrates the scale of Ryanair's residual currency exposure. A 10 % depreciation of relevant foreign currencies at March 31, 2025 would have increased equity by approximately €518 million, while a 10 % appreciation would have reduced equity by around €424 million (net of tax). These figures underline the material importance of currency risk management for Ryanair's financial position (Ryanair Holdings plc SEC Form 20-F, 2025).

#### **4.3 Interest Rate Risk Management**

Interest rate risk at Ryanair arises mainly from aircraft financing and interest-bearing assets and liabilities. In recent years, the company has maintained a net cash or low net debt position, which significantly limits its exposure to changes in market interest rates (Ryanair Holdings plc, 2024). Although Ryanair has historically entered into interest rate derivative contracts to hedge borrowing costs and principal repayments, no such contracts were outstanding at March 31, 2025 due to the insignificant level of floating-rate debt (Ryanair Holdings plc SEC Form 20-F, 2025).

Sensitivity disclosures indicate that a one percentage point increase in interest rates at March 31, 2025 would have resulted in an increase of approximately €3 million in net finance income, while a one percentage point decrease would have reduced net finance income by around €53 million, with no material impact on equity. These figures suggest that interest rate risk is currently of secondary importance relative to fuel and foreign exchange risk and is largely managed through capital structure decisions rather than active derivative hedging (Ryanair Holdings plc, SEC Form 20-F, 2025).

## **5. Link to Pricing Strategy**

The pricing strategy of Ryanair is essentially based on strict cost leadership, requiring a high degree of cost predictability in an industry with unstable input prices (Malighetti et al., 2009; Ryanair Holdings plc, 2024). As a low-cost airline the ability to offer consistent low fares depends less on short-term revenue maximisation and more on maintaining a structurally low and stable unit costs over a longer period of time. This is reflected in an average fare of approximately €46 in FY25, which illustrates both the company's aggressive pricing position and the limited scope to absorb unexpected cost increases through fare adjustments (Merkert & Swidan, 2019; Ryanair Holdings plc, 2025; Ryanair Holdings plc SEC Form 20-F, 2025).

Given such narrow margins, financial stability becomes a critical prerequisite for sustaining aggressive pricing strategies. Fuel costs alone accounted for around 42 % of Ryanair's operating expenses in FY25, making the company highly sensitive to fluctuations in global energy prices (Ryanair Holdings plc SEC Form 20-F, 2025). Without effective risk management, even moderate increases in fuel prices or adverse exchange rate movements could undermine profitability once ticket prices have already been set. Financial risk management therefore plays a central role in translating operational efficiency into sustainable pricing advantages (Merkert & Swidan, 2019). By hedging a substantial portion of its fuel and foreign exchange exposure, Ryanair reduces short-term cost volatility and improves transparency regarding future operating expenses (Ryanair Holdings plc, 2024; Ryanair Holdings plc, 2025). In FY25, approximately 78 % of fuel requirements were hedged, providing a significant degree of cost visibility over the booking horizon (Ryanair Holdings plc SEC Form 20F, 2025). This predictability is particularly important because ticket prices are typically set several months before flight operations take place, while fuel prices and exchange rates can fluctuate considerably during the same period. Stabilizing key input costs therefore limits the risk that unfavorable market developments erode margins after prices have already been fixed (Merkert & Swidan, 2019).

Effective hedging also supports Ryanair's ability to maintain low average fares across its route network during periods of rising fuel prices or adverse exchange rate movements. Compared to airlines that are less comprehensively hedged, Ryanair is better positioned to absorb short-term cost shocks without immediately passing them on to passengers through higher prices (Merkert & Swidan, 2019). In highly pricesensitive markets, this ability represents a competitive advantage, as it allows the airline to preserve demand and market share while competitors may be forced to adjust fares (Malighetti et al., 2009).

Ryanair's pricing strategy further reflects differences between currency areas, particularly between euro-denominated markets and the United Kingdom. In FY25, approximately 22 % of revenues were generated in British pounds, exposing pricing outcomes to GBP/EUR exchange rate movements (Ryanair Holdings plc, 2024; Ryanair Holdings plc SEC Form 20-F, 2025). Currency fluctuations affect effective ticket prices, passenger purchasing power and demand behavior in key markets. By hedging foreign currency exposure, Ryanair reduces the extent to which exchange rate movements are passed on to passengers via higher fares, thereby supporting price stability in strategically important regions (Evangelinos et al., 2025; Ryanair Holdings plc, 2025).

In general, Ryanair's pricing strategy is linked to its financial risk management. Hedging activities do not completely eliminate the risk of fluctuations in fuel prices or exchange rates, but they do limit short-term volatility in operating costs and cash flows. This approach enables Ryanair to maintain its low-price positioning over a longer period of time while operating in an international market environment characterised by significant financial uncertainty (Merkert & Swidan, 2019). International financial management is thus a central pillar of Ryanair's cost leadership strategy and plays a crucial role in maintaining its competitive advantage in the European airline industry (Ryanair Holdings plc, 2024).

## **6. CONCLUSION**

This paper analyzed how Ryanair manages financial risks arising from its international operations and assessed the role of international financial management in sustaining the company's low-cost business model. The analysis shows that Ryanair's exposure to international financial markets is structurally embedded in its operations, reflecting the reliance on globally priced inputs such as jet fuel and aircraft-related costs denominated in US dollars, while revenues are largely generated in euros and British pounds.

Ryanair addresses these exposures through a conservative and centralized risk management framework aimed at stabilizing operating costs and cash flows rather than generating speculative gains. By extensively hedging fuel price and foreign currency risks in line with forecast operational requirements, the company reduces short-term financial volatility and improves planning certainty in an industry characterized by narrow margins and advance pricing.

At the same time, the analysis highlights the limitations of hedging. While derivative instruments effectively mitigate short-term fluctuations, they cannot fully offset sustained increases in fuel prices or long-term exchange rate movements. Ryanair's financial performance therefore remains dependent on broader market conditions and continued operational efficiency.

Taken together, the findings confirm the premise outlined in the introduction: for Ryanair, international financial risk management is not a secondary or discretionary activity, but a structural component that supports cost leadership while operating within the limits imposed by global financial markets.

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