EFFECTS OF FOREIGN EXCHANGE RISKS ON FINANCIAL PERFORMANCE OF FUEL COMPANIES IN UGANDA
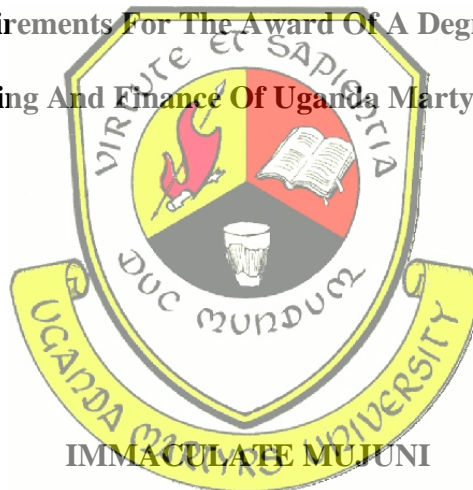
Case Study: FUEL PETROL STATIONS AROUND BUSINESS AREA OF KAMPALA.

A Dissertation Submitted To The Faculty Of Business Management In Partial Fulfillment Of The Requirements For The Award Of A Degree Of Bachelor Of Science In Accounting And Finance Of Uganda Martyrs University

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DEDICATION

This dissertation is dedicated to my family for the support given to me during my studies especially while doing this research and to all those who have trusted, appreciated and respected my abilities.

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LIST ABBREVIATIONS AND ACRONYMS

GDP: Gross Domestic Product

SPSS: Statistical Package for Social Sciences

UMI: Uganda Martyrs University

USA: United States of America

ABSTRACT

The study investigated the effects of foreign exchange risks on the performance of fuel companies. The study objectivities were: To examine the relationship and effects transaction risks have on the financial performance of fuel companies; To examine the relationship and effects translation risks have on the financial performance of fuel companies and To examine the relationship and effects economic risks have on the financial performance of fuel companies. A case study design was used and data collected from a sample of 56 respondents. Self-administered questionnaires, interview guide and documentary review guide were used in the study. Findings were presented in a tabular format showing frequencies, and percentages. Findings from the study indicate that Cash flows have been positively affected by the variations in the exchange rates for the past two years and that Profits are determined by whether the change in currency favors the company and a change in the value of foreign currency is related to our sales revenue derived from offshore of enterprises. Further, Contracts, agreements, purchases and sales are negatively affected by a change in exchange rates at the beginning and end of the accounting period. it was also revealed that Profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates and also that The sales revenue we make depends on the spot exchange rate at the time of settlement. It can also be conclude that immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates and also that profits are negatively affected by the unexpected changes in the exchange rates. Finally the study also recommended that It is recommended that the alternative methods of managing foreign exchange risk can be used when the timing of the foreign currency inflows and outflows don't match. The timing issues can be managed by depositing surplus foreign currency in a foreign currency account for later use, or by borrowing foreign currency to pay for foreign currency purchases, and then using the foreign currency to repay the loan. Since economic risk is difficult to quantify but a favored strategy to manage it is to diversify internationally, in terms of sales, location of production facilities, raw materials and financing. Such diversification is likely to significantly reduce the impact of economic exposure relative to a purely domestic company, and provide much greater flexibility to react to real exchange rate change

CHAPTER ONE

INTRODUCTION

1.0   Introduction

Fuel companies in Uganda are inevitably greatly affected by foreign exchange risks because almost all their dealings involve foreign currency. These risks arise because these companies are exposed to impending fluctuations in the foreign exchange rates and these risks inflict on the company's profits, sales and potential growth. Fuel companies have embarked on ways of managing the foreign exchange risks for their long term survival.

This study basically aims at establishing the effects of foreign exchange rate risks, transaction, translation and economic risks on the sales, profits and growth of fuel companies in Uganda and will look at ways of how to manage those particular risks with a case study of **Fuel stations around the business area of Kampala.**

The study is concentrating on the fuel stations in the center of Kampala because they receive various types of customers and the biggest number of customers since they are located in the center of Kampala.

This particular chapter introduced foreign exchange risks, their causes and the effects they have on the general performance of the company, it goes further to present the objectives of this study, the relationship between the foreign exchange risks and the sales, profits and growth of the company and finally gave the significance of the study.

1.1 Background Study.

The value of a firm may be computed by summing up the discounted expected cash flows, current level of cash flows as well as risk attitudes of its investors. The expected cash flows would naturally be affected by several economic factors such as inflation, interest rates,

production costs, national income, economic growth and foreign exchange rates (Bartram 2004).

Foreign Exchange Risk also known as currency risk is the financial risk of an investment's value changing due to changes in currency. Armitage et al (2002) defines foreign exchange rate risks as the risk that profits will change if the foreign exchange rates change. In his book "*Financial Management 10th edition*", Robert C. Higgins highlights transaction risk, translation risks and economic risk as the three types of foreign exchange risks that companies face. Organizations can choose to do nothing about their exposure and accept the consequences of variations in currency values or the possibility that their governments may impose restrictions on the availability or transfer of foreign currency, they can "hedge against their exposure", that is they can purchase a financial instrument that will protect the organization against the consequences of those adverse movements in foreign exchange rates. They can also adopt partial hedging, but this is after a careful review of the risk

Transaction risk is the exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk because there is more time for the two exchange rates to fluctuate.

Translation risk is defined as the accounting risk arising because of the change of the assets held in foreign currency or abroad. Translation risk is usually manifested as of books of accounts are translated into home currency.

Economic risk is the extent to which the present value of a firm's future cash flows will change due to change in the exchange rate. Dhanani (2000) states that economic risk is the effect of long term exchange rate movements on a firm's future expected cash flow. It is hard to identify because the cash flows linked to the risk are not certain to materialize.

As different industries have distinct competition circumstances, exchange rate movements will affect them differently, with the exchange rate impact being more pronounced in firms that routinely use foreign exchange in their operations.

Effects of foreign exchange rate risks on the financial performance of fuel companies outside Africa.

A.F.Alihaji (2004) stated that dollar devaluation has little impact European companies because of high taxes imposed on petroleum products. He further stated that increases inflation, reduces purchasing power and increases the cost of operations if spare parts are imported from Europe and Japan for the case of oil producing companies.

On May 18th, 2016 OANDA released a report and in the report it recognized that gas prices are global priced in US dollars, much like gold. A volatile dollar will affect the whole industry from refining to transportation. So any company exposed to gas trying to manage this will be affected by any significant shift in the dollar.

Effects of foreign exchange rate risks on the financial performance of fuel companies in Africa.

Different scholars have carried research on the relationship between foreign exchange rate risks and the financial performance on oil companies in Africa. Irene (2011) did a study on the relationship of foreign exchange risk and the financial performance of Airlines in Kenya, from her findings there was a negative forex risk and the financial performance. It was established that currency fluctuations have an impact on prices and hence a negative impact on the revenues and expenses denominated in foreign currency.

Fredrick Njihia Runo (2009) stated that oil companies get exposed to foreign exchange risks through importation of oil products and subsequent exportation to the neighboring countries. He stated that most of these oil companies require huge sums of working capital as a result

get short term loans to meet the huge working capital. Since these companies sell the products in local currency and repay the loan in foreign currency, they are exposed to exchange risks due to foreign exchange fluctuations (transaction risks).

Fredrick Njihia Runo (2009) showed in his study how Kenol Kobil one of the fuel companies listed in the Nairobi Stock Exchange reported a loss of 6.2 billion Kenyan shillings where 4.6 billion Kenyan shillings was attributed to the foreign exchange loss. According to Balu and Armeanu (2000)exchange rates between one currency and another can change dramatically in a short period of time leaving unprepared businesses exposed to crippling losses(eg KenolKobil's drastic shift from a profit of 3.2 billion Kenyan shillings in 2011 to a loss of 6.2 billion Kenyan shillings in 2012.

A.F. Alhaji (2004) established the impact of dollar devaluation on world oil industries. He recognized that exchange rate inflation effect declines as the percentage of oil exports in total exports declines in countries dealing in trading oils in Africa, his case study was Algeria.

Evidently from the researchers and other scholars that have studied exchange rate risks and fuel companies in Africa, the performance of companies trading in oil and fuel are negatively affected by exchange rate risks because of the currency fluctuations.

Two phenomena of the global economic scene are business internationalization and increasingly volatile foreign exchange rates. As international economic activity increases, a growing number of enterprises face a variety of challenges. Frequently unpredictable movement in exchange rates (Saudagaran 2014) is one such challenge that faces not only multinational companies (MNCs) but also individual domestic firms. The exposure to foreign exchange risk is categorized into three types: translation, transaction, and operating exposure

Transaction exposure arises from various types of transaction requiring settlement in a foreign currency Shapiro (2006) points out that most business entities have transactions

denominated in a number of foreign currencies because international business has grown in importance in recent years. Baker et al. (2015) state that "foreign currency transactions include: purchases or sales of goods or services (imports or exports), the prices of which are stated in a foreign currency, loans payable or receivable in a foreign currency, purchase or sale of foreign currency forward exchange contracts, and purchase or sale of foreign currency units". Operating exposure measures the degree to which an enterprise's present value of future cash flow is affected by exchange rate fluctuations

Dimitrescu (2009) points out that it is caused by an unexpected change in exchange rates. Translation exposure reflects the effects of exchange rate change on a company's financial statement and arises from the need to restate foreign subsidiaries' financial statements for the purpose of preparing MNCs' consolidated financial statements. Because transaction exposure depends on outstanding foreign currency receivables and/or liabilities that existed before and that will be settled after exchange rate changes, it affects both an enterprise's financial position and its performance. Hence it is objective and measurable and its effects are reported in income statement as foreign exchange gain or loss. As it affects foreign currency receivables and liabilities, transaction exposure is also reflected on the balance sheet. Because it has a direct effect on an enterprise's expected future cash flows and profitability, transaction exposure is considered to be the most important segment of a enterprise`s foreign-exchange risk exposure.

Effects of foreign exchange rate risks on the financial performance of fuel companies in Uganda.

 Mr. Henry Mugisha Bazira the executive director, Water Governance Institute and founding chairperson of Civil Society Coalition on oil and gas in Uganda on Wednesday, 21st January 2015 gave a report that as a result of the falling oil prices, foreign currency trading has seen the US Dollar appreciate against the British pound and other currencies, since Ugandans

purchase petroleum products in US Dollars, the rising value of the dollar did not help the situation. He further stated although the international pump price of crude oil was plummeting downwards, the value of the US Dollar was appreciating, thus offsetting the magnitude by which pump prices in Uganda will have reduced.

The Uganda Economic Outlook gave a report on the exchange rates and stated that the shilling has continued to depreciate against the USD, this has slowed down the profits of fuel companies in Uganda hence has negatively affected the performance of fuel companies in Uganda in 2016.

Evidently fuel companies all around the world are exposed to exchange rate risks and their performances are affected negatively to a larger extent hence their sales, profits and growth are minimal.

1.2 Statement of a problem.

Managing foreign exchange risk is a fundamental component in the safe and sound management of all institutions that have exposures in foreign currencies. It involves prudently managing foreign currency positions in order to control, within set parameters, the impact of changes in exchange rates on the financial position of the organization. Studies on companies engaged in international trade, hedging, and exchange rate risk have stressed the fact that as the companies expand their involvement throughout the world, the probability that they will face exchange rate fluctuations or volatility in their operations also increases.

The effect foreign exchange risks impose on fuel companies affects the Ugandan economy at large. In 2011 the daily monitor reported high fuel prices and a systematic increase in the rate of inflation. Fuel is used for transportation and for machinery in business, so when the fuel prices increase the cost of production of businesses increase and thus the price of the

resulting products are also raised. As a result the customers by goods at increased prices and their cost of living also increases thus inflation.

1.3 Objectives of the Study

1.3.1 Broad Objective.

To investigate the effects of foreign exchange risks on the performance of fuel companies.

1.3.2 Specific objectives.

i.   To examine the effects transaction risks have on the financial performance of fuel companies.

ii. To examine the effects translation risks have on the financial performance of fuel companies.

iii. To examine the effects economic risks have on the financial performance of fuel companies.

1.4 Research Questions.

i.   What effect do transaction risks have on the financial performance of fuel companies?

ii. What effect do translation risks have on the financial performance of fuel companies?

iii. What effect do economic risks have on the financial performance of fuel companies?

1.5 Conceptual Frame Work.

Figure 1.1: Conceptual Frame Work.

Dependent Variable		Independent Variable
Exchange Rate Risks - Transaction Risk - Translation Risk - Economic Risk		**Financial Performance of Fuel Companies** -Sales/revenues -Profits

Moderating Variable

- Macroeconomic policies
- Central Bank Stabilization
- Balance of Payment
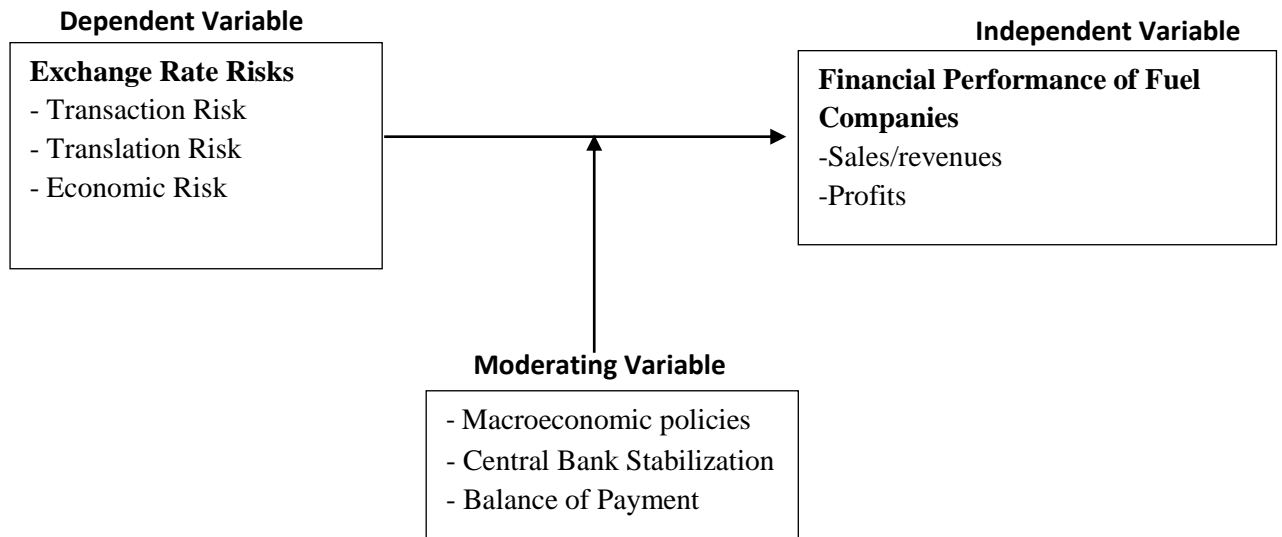
Effects of transaction risks on sales/revenues of fuel companies in Uganda.

Transaction risk as defined in (financial management 2010) is the possible gain or loss on existing foreign currency denominated transactions. Mark Grinbatt and Sheridan Titman (2002) stated that transaction risks arise when a company buys and sells a good priced in foreign currency on credit. When the Ugandan shilling depreciates against the US dollars, the fuel importers face a high expense in paying for the fuel in dollars, as a result this will impact on the final consumers as they will be charged a higher price of fuel as the fuel importers try to get compensation for the high costs of importing they faced. The revenues of the fuel importers (shell companies) will significantly reduce as the consumers will reduce on the amount of consumption of fuel. This was evidently witnessed in **2014/2015** when the fuel prices went up due to the weakening of the Ugandan Shilling.

Effects of transaction risks on the profits of fuel companies in Uganda

Transactions risks lower the profits of fuel companies, because when the revenues/ sales are reduced the profits are adversely reduced.

Effects of translation risks on the sales/revenues of fuel companies in Uganda

Translation risks as defined by (financial management, 2010) are the exchange gain or loss occurring from difference in exchange rates at the beginning and the end of the accounting period. The exchange rates at the beginning of the accounting period may differ from the exchange rate at the end of the accounting period.

Mark Grinbatt and Sheridan Titman (2002) stated that transition risks arise from the translation of balance sheets and income statements in foreign currency to the currency of the parent company for financial reporting purposes. When the financial statements are translated from Ugandan shilling to US dollars, the revenues/ sales are lowered due to the fact that the Ugandan shilling is weaker than the US dollar.

Effects of translation risks on the profits of fuel companies in Uganda

Mark Grinbatt and Sheridan Titman (2002) stated that changes in the value of exchange associated with exchange rate changes often reflect the economic changes that affect the future profitability of the firm. The translation of the balance sheets and income statements affects aspects on the financial statement like the cost of sales. Since the Uganda shilling is weaker than the dollar, when the financial statements are translated into the parent currency, the cost of sales are raised as a result the profits are lowered.

Effects of economic risks on the sales/revenues of fuel companies in Uganda

Economic risks as defined by (financial management, 2010) are the changes in the value of the firm caused by unexpected changes in the exchange rates. And when the dollar unexpectedly rises higher than the anticipated value, it will have a negative effect on the sales

and cash flows of fuel companies. This is because the fuel importers will be paying much more to get the oil.

Effects of economic risks on the profits of fuel companies in Uganda

The daily monitor in 2015 how the sudden rise in the dollar greatly affected the profits led to a tremendous fall on the profits of fuel companies. When the dollar suddenly rises it has an effect of the costs of production of fuel companies as they will be buying fuel at a higher price. Though the price of the fuel is raised the revenue received will be used to offset the loss made while importing so little or no profits will be realized at the end.

1.6   Significance of the study

Fuel is a very significant product or aspect of Uganda, It is the driving force for industrialization, running of companies, business infrastructural development and all. The more the fuel prices go up or the more the performance of fuel companies deteriorates, the more the economic growth and development of the country slows down or comes to a pause.

The study will help fuel companies to have a broad and clear understanding of exchange rate risks, and ways of managing the risks, the study will supplement on the literature available on foreign exchange and manifest on the efforts of researches that are finding solutions to the exchange rate problems. The study will help the young generation that will base their study on economics and foreign currencies to have a background and foundation of their study. In addition the study will help policy makers and finance planners to:

- **Encourage traders and exporters of Uganda**. With the effects of foreign exchange rate risks established and ways to hinder those risks it will adversely increase the profits of these traders since they will be avoiding the negative effects of the currency fluctuations and the heavy taxes of foreign countries.

- **Create a Balance of Payment in the country**. Once the exchange rate risks are hindered it will adversely have a positive effect on the receipts and payments and hence create a balance of payment.

- **Boost industrialization in Uganda**. Once the fuel prices are stabilized and transportation is eased, constant flow of energy, production and delivery will be done in time hence accelerating economic growth.

1.3 SCOPE OF THE STUDY

1.3.1 Content scope

The study focused on foreign exchange rate risks that are transaction risks, translation risks and economic risks. The effects these foreign exchange risks have on the financial performance of fuel companies in Uganda in terms of sales, profits and growth with a case study of fuel stations around the business area of Kampala and finally ways of managing the foreign exchange risks.

1.3.2 Time scope

The study took three years from 2014 t0 2017, the research is a cross sectional research that analysis data at one point in time.

1.3.3 Geographic scope

The study was conducted in the city center of Kampala, around the business areas of Kampala. It is located 0.32 latitude and 32.58 longitudes and is situated at elevation 1223 meters above sea level. The study looked at the fuel stations in the business area of Kampala. Using an example of shell petrol stations Samuel Sanya reported that; Uganda consumes between 100 million to 110million litres of petrol, diesel, kerosene and aviation fuel every month purchased by close to 70 licensed fuel dealers. Shell Uganda uses 250 trucks to import fuel on a daily basis.

1.4 Justification of the study

Foreign exchange rate risks have a great impact on the performances of fuel companies in the business area of Kampala mainly on their prices. As these fuel companies try to hedge against the foreign exchange risks, rationally they increase the prices of fuel, so as to stabilize their profits. An increase in fuel prices does not only affect the fuel companies but all other business both medium and large scale business. This is so because fuel is used for transportation and also for machinery in businesses so an increase in fuel prices ultimately leads to an increase in the costs of production of businesses and in turn leads to increase in the prices of their products which systematically cause inflation.

My study is necessary because a decline in the performance of fuel companies affects the growth of the nation at large.

1.5 Key Definitions

Transaction risk as defined in (financial management 2010) is the possible gain or loss on existing foreign currency denominated transaction.

Translation risk as defined in (types of foreign exchange) is the exposure due to translation of books of accounts into home currency.

Economic risk as defined in (financial management 2010) is the change in the value of the firm caused by unexpected changes in the exchange rate.

Exchange rate commonly known as FOREX is defined as the rate at which one currency is exchanged for another or the value of one country's currency to another.

Financial performance is defined as the subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews what different scholars have tackled in terms of the relationship between exchange rate risks and the sales and profits of fuel companies. This chapter also looks at the different models that explain exchange rate risks.

2.1 Understanding the concept of foreign exchange risks

Foreign exchange risk - also called FX risk, currency risk, or exchange rate risk - is the financial risk of an investment's value changing due to the changes in currency exchange rates. This also refers to the risk an investor faces when he needs to close out a long or short position in a foreign currency at a loss, due to an adverse movement in exchange rates.

BREAKING DOWN 'Foreign Exchange Risk'

Foreign exchange risk typically affects businesses that export and/or import their products, services and supplies. It also affects investors making international investments. For example, if money must be converted to another currency to make a certain investment, then any changes in the currency exchange rate will cause that investment's value to either decrease or increase when the investment is sold and converted back into the original currency

Exchange rate movements are more likely to affect a firm through direct effects on short-term cash flows, which in turn depend on the firm's sensitivity to short-term cash flow volatility. For example, if a firm's liquidity is already low, then a large fluctuation in its cash flows due to an exchange rate movement can push the firm into financial distress, and as a result, lead to changes in its fundamental value. Similarly, when a firm has substantial growth opportunities, exchange rate movements can have greater effects on the firm's value due to its larger underinvestment costs. If exchange rate changes have pronounced effects on

fundamental values primarily when the resulting short-term cash flow fluctuations force the firm into financial distress or cause it to forsake positive NPV investment opportunities, the magnitude of exposures would vary cross-sectional with the expected cost of financial distress in terms of both the probability of distress and the cost related to it, so that firms that have greater expected costs of financial distress should be more exposed to exchange rate risk.

2.2 Organizational Performance

One of the earliest distinctions of how exchange rates affected stock prices was according to whether the firm was multinational or domestic in nature Franck and Young (1972). In the case of a multinational entity, changes in the value of the exchange rate alter the value of the multinational's foreign operations, showing up as a profit or loss on its books which would then affect its share price. The manner in which currency movements influence a firm's earnings (and hence its stock price) depends on the characteristics of that firm. Indeed, today most firms tend to be touched in some way by exchange ratemovements, although the growing use of derivatives, such as forward contracts and currency options, might work to reduce the manner in which currency movements affect a firm's earnings.

Edwards (2014) noted that real exchange rate behavior occupies a central role in policy evaluation and design especially in the less developed countries. Since the real exchange rate is the price of foreign goods in terms of domestic goods, the real exchange rate plays a crucial role in guiding the broad allocation of resources in the domestic economy between foreign and domestic goods. It also signals inter-sectoral growth in the long-run and acts as a measure of international competitiveness. In the early 1980s the declining economic fortune of many sub-Saharan African Countries including Nigeria was attributed to over-valued exchange rates. Currency over-valuation often leads to a reduction in profits in the tradable goods

sector, declining investment and adverse trade balance which may eventually lead to currency crisis Xiaopu, (2002).

Richards (1997) used two approaches in investigating the empirical relationship between the real exchange rate and USA manufacturing profits. First it estimated a single-equation error correction model and second, a vector autoregressive (VAR) in log levels. The study found that after taking into account output, costs, relative prices and exports, shifts in the real exchange rate have, over the floating rate period had a significant influence on real USA manufacturing.

2.1. Theoretical studies.

Scholars in the field of exchange rates have come up with different models and theories that are related to exchange rate risks.

2.1.1 Interest Rate Parity.

Interest rate parity is a theory in which the interest rate differential between two countries is equal to the differential between forward exchange rate and spot exchange rate. This is for when interest rate is covered. Interest rate parity plays an essential role in foreign exchange markets, connecting interest rates, spot exchange rates and foreign exchange rates. Uncovered interest rate parity is a parity condition stating that the difference in interest rate between two countries is equal to the expected change in exchange rates between the countries currency. With uncovered interest rate parity there is a high risk imposed on the anticipated profit since the interest rate in the domestic country has not been hedged from the risk.

If one country offers a higher risk-free rate of return in one currency than that of another, the country that offers the higher risk-free rate of return will be exchanged at a more expensive future price than the current spot price. In other words, the interest rate parity presents an idea that there is no arbitrage in the foreign exchange markets. Investors cannot lock in the current

exchange rate in one currency for a lower price and then purchase another currency from a country offering a higher interest rate.

Covered vs. Uncovered Interest Rate Parity: The interest rate parity is said to be covered when the no-arbitrage condition could be satisfied through the use of forward contracts in an attempt to hedge against foreign exchange risk. Conversely, the interest rate parity is said to be uncovered when the no-arbitrage condition could be satisfied without the use of forward contracts to hedge against foreign exchange risk.

Interest rate parity is a no-arbitrage condition representing an equilibrium state under which investors will be indifferent to interest rates available on bank deposits in two countries. The fact that this condition does not always hold allows for potential opportunities to earn riskless profits from covered interest arbitrage. Two assumptions central to interest rate parity are capital mobility and perfect substitutability of domestic and foreign assets. Given foreign exchange market equilibrium, the interest rate parity condition implies that the expected return on domestic assets will equal the exchange rate-adjusted expected return on foreign currency assets.

Investors then cannot earn arbitrage profits by borrowing in a country with a lower interest rate, exchanging for foreign currency, and investing in a foreign country with a higher interest rate, due to gains or losses from exchanging back to their domestic currency at maturity. Interest rate parity takes on two distinctive forms: uncovered interest rate parity refers to the parity condition in which exposure to foreign exchange risk (unanticipated changes in exchange rates) is uninhibited, whereas covered interest rate parity refers to the condition in which a forward contract has been used to cover (eliminate exposure to) exchange rate risk. Each form of the parity condition demonstrates a unique relationship with implications for the forecasting of future exchange rates: the forward exchange rate and the future spot exchange rate.

Economists have found empirical evidence that covered interest rate parity generally holds, though not with precision due to the effects of various risks, costs, taxation, and ultimate differences in liquidity. When both covered and uncovered interest rate parity hold, they expose a relationship suggesting that the forward rate is an unbiased predictor of the future spot rate. This relationship can be employed to test whether uncovered interest rate parity holds, for which economists have found mixed results. When uncovered interest rate parity and purchasing power parity hold together, they illuminate a relationship named real interest rate parity, which suggests that expected real interest rates represent expected adjustments in the real exchange rate. This relationship generally holds strongly over longer terms and among emerging market countries.

2.1.2 Purchasing Power Parity

This is an economic theory that compares different countries' currencies through a 'market basket of goods approach.' According to this concept, two currencies are in equilibrium or at par when the market basket of goods (taking into account the exchange rate) is priced the same in both countries. The absolute form also referred to as law of one price; suggests that prices of similar products of two different countries should be equal when measured in a common currency if a discrepancy in price as measured by the common currency, the demand should shift so that these prices converge.

Absolute form also suggests that because of market imperfections, prices of similar products of different countries will not be the same when measured in common currency. It states that the rate of changes of prices in these products should be almost similar when measured in a common currency so long as the imperfections remain the same. In equilibrium form according to this theory, any differential exchange rate to the one propounded by the theory is the real appreciation of real depreciation of the currency over the other.

The alternative to using market exchange rates is to use purchasing power parities (PPPs). The purchasing power of a currency refers to the quantity of the currency needed to purchase a given unit of a good or common basket of goods and services. Purchasing power is clearly determined by the relative cost of living and inflation rates in different countries. Purchasing power parity means equalizing the purchasing power of two currencies by taking into account these cost of living and inflation differences. For example, if we convert GDP in Japan to US dollars using market exchange rates, relative purchasing power is not taken into account, and the validity of the comparison is weakened. By adjusting rates to take into account local purchasing power differences, known as PPP adjusted exchange rates, international comparisons are more valid.

Purchasing power parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. When a country's domestic price level is increasing (i.e., a country experiences inflation), that country's exchange rate must depreciated in order to return to PPP.

The basis for PPP is the "law of one price". In the absence of transportation and other transaction costs, competitive markets will equalize the price of an identical good in two countries when the prices are expressed in the same currency.

Economists use two versions of Purchasing Power Parity: absolute PPP and relative PPP. Absolute PPP was described in the previous paragraph; it refers to the equalization of price levels across countries. Relative PPP refers to rates of changes of price levels, that is, inflation rates. This proposition states that the rate of appreciation of a currency is equal to the difference in inflation rates between the foreign and the home country. For example, if Canada has an inflation rate of 1% and the US has an inflation rate of 3%, the US Dollar will

depreciate against the Canadian Dollar by 2% per year. This proposition holds well empirically especially when the inflation differences are large.

2.1.3 The supply and demand theory.

This theory states that the value of a nation's currency is determined by the supply and demand for that currency. In Uganda today as reported by the governor bank of Uganda Mr. Tumusiime Mutebile; the Ugandan shilling weakens more against the dollar the more the rate of demand for the US Dollar increases. Thus the exchange rate is determined from there supply and demand.

Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.

The relationship between demand and supply underlie the forces behind the allocation of resources. In market economy theories, demand and supply theory will allocate resources in the most efficient way possible. How? Let us take a closer look at the law of demand and the law of supply.

2.1.4 The psychological theory

The theory states that the exchange rates are determined by the attitudes of the people in the business field. If they anticipate the a rise in the rate in future, they demand more for the

currency thereby rising its rate and if on the other hand they anticipate the a decline in the rate, they sell the currency and hence increase the market supply of the currency and push its rate down.

2.1.5 Flow oriented model.

This model was developed by Dornbusch and Fisher in 1980. The model explains the relationship between exchange rate changes and stock prices. The model assumes that country's account and trade balance performance are two important factors of exchange rate determination hence stock prices and exchange rates are positively related. The model claims that changes in exchange rates alter the international competitiveness as well as the balance of payment position, and thus exchange rate changes affects real income and output of the country. Share prices of companies are influenced by exchange rate changes and future cash flows of a firm, implying that exchange rate changes affect stock returns hence they are positively correlated.

Flow models focus on the flow of data objects as they are transformed by processing functions. Derived from structured analysis, flow models use the data flow diagram, a modeling notation that depicts how input is transformed into output as data objects move through the system. Each software function that transforms data is described by a process specification or narrative. In addition to data flow, this modeling element also depicts control flow.

Flow oriented modeling is the most widely used analysis notation. Flow oriented modeling focuses on structured analysis and design, follows a top to down methodology and uses a graphical technique depicting information flows and the transformations that are applied as data moves from input to output. The modeling tools that are used to build a data flow

oriented model include context diagrams, data flow diagrams, entity relationship diagram, control flow diagram, state transition

Flow-Oriented Modeling Represents how data objects are transformed at they move through the system. A data flow diagram (DFD) is the diagrammatic form that is used considered by many to be an 'old school' approach, flow-oriented modeling continues to provide a view of the system that is unique—it should be used to supplement other analysis model elements.

Flow Oriented Models assume that the exchange rate is determined largely by a country's current account or trade balance performance. These models posit that changes in exchange rates affect international competitiveness and trade balance, thereby influencing real economic variables such as real income and output Dornbusch and Fisher, (1980). Stock prices, usually defined as a present value of future cash flows of firms, should adjust to the economic perspectives. Thus, flow oriented models represent a negative relationship between stock prices and exchanges rates with direction of causation running from exchange rates to stock prices. Causation can be explained as follows: domestic currency depreciation makes the local firms more competitive, making their exports cheaper in international market. Higher exports lead to higher incomes and increase in firms' stock prices.

A study by Aggarwal (2010) provided some evidence in support of the flow model. This study examined the relationship between exchange rates and stock prices by looking at the correlation between changes in the US trade-weighted exchange rate and changes in US stock market indices each month for the period 1974 to 1978. The study found that the trade-weighted exchange rate and the US stock market indices were positively correlated during this period, leading Aggarwal (2011) to conclude that the two variables interacted in a manner consistent with the flow model. That is, movements in the exchange rate could directly affect the stock prices of multinational firms by influencing the value of its overseas operations, and indirectly effect domestic firms through influencing the prices of its exports

and/or its imported inputs. Soenen and Hennigar (1988) found a significant negative correlation between the effective value of the US dollar and changes in US stock prices using monthly data between the period from 1980 to 1986. While this finding is in contrast to Aggarwal (2011), who found a positive correlation, it still provides evidence in support of the flow model.

2.1.6 Stock Oriented Model.

The stock oriented model was developed by Branson and Franklin in 1983. Farah M. Musa (2014) the approach suggests that an increase in stock prices induces investors to demand more domestic assets and thereby leads to appreciation of the domestic currency, implying that stock prices and exchange rates are negatively related. The appreciation of the domestic currency attracts more foreign capital and investments into the domestic market which then leads to currency appreciation.

Theoretical links between stock prices and exchange rates have taken two major forms. The "Flow-oriented" models of exchange rates concentrate on the current account of the balance of payment. These models hypothesize that exchange rates changes influence international competitiveness and trade balance, impacting real income and output. Stock prices react to exchange rate changes and create a link between current investment and consumption decisions. Innovations in the stock market impact the aggregate demand through wealth and liquidity effects, influencing money demand and exchange rates, With the "Stock-oriented" models of exchange rates (Branson, 1983; Frankel, 2013), focuses on the capital account as a significant determinant of exchange rate dynamics. Since the values of financial assets are determined by the present values of their future cash flows, expectations of relative currency values impact internationally held financial assets. Therefore, stock price innovations may affect, or be affected by, exchange rate dynamics.

Stock oriented models put much stress on the role of capital accounting the exchange rates determination. A rise in domestic stock prices leads to the appreciation of domestic currency through direct and indirect channel. A rise in stock prices encourages investors to buy more domestic assets selling simultaneously foreign assets to obtain domestic currency indispensable for buying new domestic stocks. Described shifts in demand and supply of currencies cause domestic currency appreciation. The indirect channel grounds in the following causality chain. An increase in domestic assets prices results in growth of wealth, which leads investors to increase their demand for money, which in turn raises domestic interest rates. Higher interest rates attract foreign capital inflow and initiate an increase in foreign demand for domestic currency and its subsequent appreciation Frankel, (1983).Thus, this postulate a positive relationship with causality running from stock prices to exchange rate.

The degree to which stock oriented models actually explain real world stock and currency market reactions is critically dependent upon issues such as stock market liquidity and segmentation. For example, illiquid markets make it difficult and/or less timely for investors to buy and sell stock, while segmented markets entail imperfections, such as government constraints on investment, high transactions costs and large foreign currency risks, each of which may discourage or hinder foreign investment Eiteman et. al. (2004).It is clear from this theoretical review that there are various ways by which stock and currency markets can interact. This makes empirical analysis of the degree and direction of causality between stock prices and exchange rates particularly interesting and has provided the motivation for several studies in examining the interaction between stock prices and exchange rates. Although theory such as the flow and portfolio models and the money demand equation hypothesize that a relationship should exist between exchange rates and stock prices, the evidence provided by the literature on this subject matter has been mixed.

2.2 Effects of economic risks on profits of fuel companies.

I.M Pandey (2010) defined economic risk as the variability of the firm's value resulting from unanticipated exchange rate changes. The scholar continued and stated that economic risks arise due to unexpected changes in the exchange rates. He gave an example that when a company in India for example is operating internationally, it buys goods and services from abroad say USA and sells the goods and services whose price is denominated in US dollars in the foreign markets. If the exchange rates between the domestic country and USA changes, then the values of the cash flows also changes in the domestic country currency will change affecting the operating profitability. So when the foreign exchange rates changes are unexpected, the value of the firm in the home country will also be affected.

Charles Hill (2005) stated that economic mismanagement causes drastic changes in the in a country's business environment that hurt the profit and other goals of a business enterprise. He has stated that the biggest problem arising from economic mismanagement is inflation, where too much money is chasing too few goods resulting in price inflation.

In accordance to the scholar when the economy is economically mismanaged and is encountered with sudden economic instabilities like inflation, the domestic currency is automatically devalued and so the exchange rate is changed, this exposes companies that directly deal with foreign currencies to economic risks. A company's cash flows will be affected and so will the profits of the company.

According to Uganda Export Board Promotion (2000), an exporter's vulnerability to foreign exchange risk depends on the currency mix and competitive structure.

Oluka Moses (2006) stated that risk may be greater on the account of currency risk if the exporter exports to more than one country.

Micheal , Iikka, Micheal (2005) in international business stated that the impact of economic risk on the profits of a business depends on the line of business, not in the process of settling payments on business already completed.

The line of business looks at the services or products that a business offers. For business that deal mainly in importing, the risks on their profits are high than for businesses that make goods locally or that get goods from the country, though we are not disclaiming the fact that those businesses profits are affected by economic risks but the impact is not as large as those business that are in the line of business of importing.

Early studies of Hooper and Kohlhagen (1978) show that higher exchange rate volatility is associated with higher costs for traders that are risk averse and ultimately lower foreign trade. The idea is that if changes in exchange rates are unpredictable it creates uncertainty on the profits made by international traders reducing the benefits of international trade. The empirical studies have not reached a consensus on the negative impact of foreign exchange rate volatility on trade flows.

A firm has economic exposure (also known as forecast risk) to the degree that its market value is influenced by unexpected exchange rate fluctuations. Such exchange rate adjustments can severely affect the firm's market share position with regards to its competitors, the firm's future cash flows, and ultimately the firm's value. Economic exposure can affect the present value of future cash flows. Any transaction that exposes the firm to foreign exchange risk also exposes the firm economically, but economic exposure can be caused by other business activities and investments which may not be mere international transactions, such as future cash flows from fixed assets. A shift in exchange rates that influences the demand for a good in some country would also be an economic exposure for a firm that sells that good. Economic Exposures cannot be hedged as well due to limited data,

and it is costly and time-consuming. Economic Exposures can be managed by, product differention, pricing, branding, outsourcing, etc.

Byrne et al (2008) investigate the impact of exchange rate volatility on the volume of US Bilateral trade using sectoral data and they find evidence of negative impact of exchange rate volatility on trade with higher coefficients for the exports of differentiated goods. Exchange rate volatility is the degree to which the exchange rate of a company changes over time. The higher the degree of volatility the more the companies' profits are exposed to risks. When exchange rates change suddenly, the costs of operations of a business are affected, they rise and hence the profits are lowered.

Exchange rates have a negative effect on trade flows, in case the exchange value of a domestic country is lowered then that means they will be buying few goods against a large sum of money and in terms of exports selling a lot of goods against little money.

2.3 Effects of economic risks on the sales of fuel companies.

Pandey stated that a shift in the exchange rate could affect the immediate cash flows as well as the cash flows in the future. The future cash flows are affected because a change in the exchange rate could also affect the price, volume, market share and ultimately a firm's competitiveness. I.M Pandey gave an example to clarify his statement above. Suppose a US company exported its goods of $100,000 at an exchange rate of $0.022 per Indian rupee. To the importing Indian company, the cost is$100,000/0.022 which equates to Rs 4,545,455. If the Indian rupee suddenly depreciates and the exchange rates shifts to $0.0218 per rupee then the cost to the Indian importer would be 4,587,156. The importer might increase the price of the products sold to the domestic buyers to cover the higher costs. If he doesn't increase the price his profit margin will fall. Due to the increase in price the sales/revenue may drop.

The exporter may reduce the price but this would cause the exporter revenue to fall and the profits to shrink. However, he would be able to maintain the market share and volumes.

Sales revenue is the total amount of cash a business receives from customers as payment for its products and services. On the other hand, cash flows refer to the available amount of cash in hand.

Cash flows shows the total amount of money both coming into company and moving out of it, while sales revenue only shows gross amount of money coming into a company through sales.

Cash flows as stated above is money at hand, it is money used to run a business to clear debts, pay employees and many more. So once cash flows are affected negatively by economic risks then the sales of a company will be negatively affected and once cash flows are positively affected by economic risks then the sales revenue will be positively affected. In simple terms economic risks directly affect cash flows but indirectly affect sales revenue.

Gomezi-Meji Balkin (2002) stated that when firms enter international markets, they are subjected to economic shifts that may have a major effect on earnings. He stated that devaluation occurs when more local currency is needed to obtain a given amount of foreign currency, in effect making the local currency less worth outside the country. If the local currency is devalued the relative to the company's domestic currency, the company may receive less money for its products and services than it expected. To maintain profit levels, the firm would have to raise its prices, which may lead to fewer sales.

Firms that are in the international market sell goods to the people in their home country, and those people and other firms get affected. For example, if a fuel companies are affected by the sudden change in exchange rates and have to give a lot of Uganda shillings in exchange

for the dollar to purchase the fuel, the fuel companies will increase the price of fuel in order to cover the losses the made.

These domestic companies will be affected by the high prices of fuel and will faces high costs in transporting their products to the market and raw materials to the manufacturing area, in order for these people to cover the cost of production they will price their products highly and other consumers will be affected too, the cycle goes like that. So economic risks affect the sales of all companies', schools, hotels even the simple hawkers around town and not only the firms in international markets.

Economic currency risk according to Uganda Export Promotion Board (2000) and Abor (2005) this occurs as a result of changes in real exchange rates. Economic currency risks are not directly accounted for in the financial statements of an exporter. Fluctuations of this sort have indirect financial effects as export transactions or sales may not take place as a result of the loss of competitiveness that is economic currency risks prevent sales from taking place. Economic currency risk has effects across the board, irrespective of the currency in which the quotations or the sales are made. Factors like the strength of competitor's currency, relative cost and prices in each country, business structures, and etcetera all lead to economic currency risks. Another category is Trading risk, occurs because there is an appreciation or depreciation in the currency in which sales or purchases are made. If the currency of the importing country appreciates, the exporter stands to gain. Trading risks occur either because of currency in which pricing was quoted is not the currency in which costing is done, or because an assumed (future) exchange rate is used at the time of price decision. However, because of the time lag between the pricing decision and the conversion of the sale proceeds into the currency in which costing is done, the assumed rate can be different from the actual exchange rate(Abor, 2005).

According to Uganda Export promotion Board (2000), an exporter's vulnerability to foreign exchange risk depends on the currency mix and competitive structure. Risk may be greater on account of currency mix if the exporter exports to more than one country. A balance of outflows and inflows of different currencies has to be achieved in order to minimize risk. As for the competitive structure, the particular industry in which the exporter is operating may also be prone to currency risks. More competition in the industry will expose the exporter to currency risks due to price sensitivity. According to El-Masry & Omneya, (2007), foreign exchange exposure is the sensitivity of changes in the real domestic currency value of assets, liabilities or operating incomes to unanticipated changes in exchange rate.

2.4 Effects of translation risks on the sales/revenues of fuel companies.

I.M Pandey (2010) defined translation risk as the exchange gain or loss occurring from the difference in the exchange rates at the beginning and the end of the accounting period. Translation Risk' The exchange rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.

This poses a serious threat for companies conducting business in foreign markets. Exchange rates usually change between quarterly financial statements, causing significant variances between the reported figures. Companies attempt to minimize these transaction risks by purchasing currency swaps or hedging through futures contracts.

Micheal, Iikka, Micheal H (2005) stated that two conditions exist for the translation exposure to exist: a cash flow that is denominated in a foreign currency and the cash flow will occur at a future date. The scholars claimed that any contract, agreement, purchase or sale that is denominated in a foreign currency that will be settled at a future date constitutes a translation exposure.

The risk of translation exposure is that the exchange rate might change between the present date and the settlement date either for the better or the worse. The scholars' claim that the sales and revenue a company will receive, depends on the spot exchange rate at the time of settlement. In case the spot exchange rate is favorable to the domestic country, then the country will pay less and hence make immense sales because the goods will be priced at a lower price hence attracting customers but in case the spot exchange rate is not favorable for the domestic country then it will pay more and make less sales.

Spot exchange rate is the price to exchange one currency for another for immediate delivery. The spot exchange rates are determined in foreign exchange spot markets. These spot markets can be very volatile; in the short term, rates are often driven by rumor, speculation and technical trading. In the long term rates are generally driven by a combination of economic growth and interest differentials. According to I.M Pandey (2010) the difference spot exchange rates (spot prices) relies on the financial cost, dividend or interest associated with a financial security.

Spot exchange rates are determined by speculation most times, the economic status of a country and so it is difficult to predict what the spot exchange rate will be at a certain period of time, and this brings about a difference in the exchange rate at the beginning and end of the accounting period exposing the companies to translation risks. The first step in managing foreign exchange (FX) risk is to acknowledge that this risk exists and that managing it is in the interest of the firm and its shareholders. The next step, however, is much more difficult: the quantification of the nature and magnitude of FX exposure. In other words, assessing what is at risk, and in what way. Therefore, a thorough understanding of the different FX exposures is key to identify and measure the actual FX exposures. In our advisory projects on FX risk management we use the following classification in identifying the FX exposures.

Transaction exposure: This is the risk of value changes of a transaction executed in foreign currency measured in the functional currency as a result of FX fluctuations: Transaction exposures can be split into 'recognized transaction exposures' and 'unrecognized transaction exposures'. Unrecognized transaction exposures can be split into either a 'contractual/committed exposure' or an 'anticipated exposure.

Net asset translation exposures arise when the value of non-functional currency assets and liabilities are to be translated into the functional currency of the company. The fluctuations of the exchange rate between the functional and non-functional currency could generate significant gains or losses. Consider a company with a wholly-owned subsidiary whose assets are denominated in US dollars and the reporting currency of the company is in Euros. If the euro appreciates against the dollar, the value of the assets will be lower when translated into Euros. The result will be a loss in the value of the group's assets, which will be recognized in the company's foreign currency translation reserve as part of equity on the balance sheet. However, this gain or loss will only materialize in the profit and loss (P&L) when the asset is sold.

Profit translation exposure arises as the results of foreign subsidiaries are consolidated from the reporting currency of the subsidiary into the reporting currency of the group. Therefore, the consolidated P&L will be subject to the strength of the reporting currencies of the subsidiary. As long as the earnings or the retained earnings respectively are kept in the non-functional currency entity, it is a translation risk exposure from a group perspective.

As soon as a part of the profit of the foreign subsidiary is paid out as a dividend disbursement to the attention of the group, it turns into a transaction risk. Protecting FX denominated net asset values (net asset translation). Changes in exchange rates result in a change in the MNCs reported capital base as the subsidiary's foreign currency denominated balance sheet is

restated in the consolidation currency. Translation gains or losses impact the reserves of the company.

The majority of companies who decide to hedge net asset value translation risk actively use foreign currency loans. Derivatives could also be used to hedge this risk. However, the biggest disadvantage of derivatives to hedge translation risk is that it could lead to liquidity issues due to cash settlements of derivatives. Also, companies seek to keep net investments as low as possible by leveraging subsidiaries in local external debt and regular capital repatriation.

In order to avoid FX results of revaluation of the foreign currency loans in the P&L, net investment hedge accounting is applied. The FX gains or losses on the borrowing are deferred in equity (other comprehensive income) to offset the exchange differences on the net assets in the translation reserve. A number of situations can be observed in which companies decide to actively hedge net asset value translations risk, e.g. when a company has balance sheet ratio covenants in financing or a public credit rating or to protect the divesture asset value of the foreign subsidiary. Deteriorating ratios may lead to an increase in the cost of debt financing. Consider a company with a credit facility in which it ensures to maintain a minimal net worth on consolidated level. The actual value of this net worth on reporting dates determines the credit spread the company has to pay on its funding. In case this company has a number of wholly-owned subsidiaries with assets denominated in a currency different than the reporting currency, an appreciation of the reporting currency against the foreign currency would lead to a loss on its assets denominated in the foreign currencies. This will impact the net worth and could end with the company having to pay a higher credit spread or even worse a breach of its net worth covenant.

However, there are also situations in which the hedging of the net asset value is less relevant. Especially when the equity book value of the foreign subsidiary deviates strongly from the

economic value. In such situations the hedging of the equity book value becomes less relevant from an economic point of view. Also, when the foreign subsidiary is considered strategic and the assets are part of the core assets of the company, net asset value hedging is in this instance of dubious value.

Therefore, the decision to hedge this risk should be considered in relation to the potential impact of net asset value translation on the capital base of the company. If in practice the cost of borrowing foreign currency debt is higher than the borrowing in the group's consolidation currency, balance sheet hedging can come at a cost.

2.5 Effects of translation risks on the profits of fuel companies.

Madura (2003) states that translation risks arise from currency mismatch and it is related to assets or income derived from offshore of enterprises.

Njihia. F. (2013) states that translation risk is the effect exchange rate risks have on the figures shown on the parent company's balance sheet. Thus while income statements are usually translated at the average exchange rate over the period, the balance sheet exposures of foreign subsidiaries are often translated at the prevailing exchange rate at the time of consolidation.

Shapiro (2006) stated that if exchange rates have changed, liabilities, revenues, expenses, gains and losses dominated in foreign currency will result into foreign exchange gains or losses. It is basically balance sheet exchange rate risks and impacts balance sheet assets, liabilities and income statement items that already exist.

A firm's translation exposure is the extent to which its financial reporting is affected by exchange rate movements. As all firms generally must prepare consolidated financial statements for reporting purposes, the consolidation process for multinationals entails translating foreign assets and liabilities or the financial statements of foreign subsidiaries

from foreign to domestic currency. While translation exposure may not affect a firm's cash flows, it could have a significant impact on a firm's reported earnings and therefore its stock price. Translation exposure is distinguished from transaction risk as a result of income and losses from various types of risk having different accounting treatments.

Measuring currency risk may prove difficult, with regards translation risks and economic risks. (Van Deventer et al, 2004; Holton, 2003).

The profits a company will make a not certain, this is because they can hardly be forecasted so the gain a company makes relies on the whether the change in currency favor the company or not.

2.6 Effects of transaction risks on the profits of fuel companies.

Shapiro (2006) defines transaction risk as the extent to which given exchange rate will change the value of foreign currency dominated transactions which have already been entered into by the company. Transaction risk is the exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk, because there is more time for the two exchange rates to fluctuate. Transaction risk creates difficulties for individuals and corporations dealing in different currencies, as exchange rates can fluctuate significantly over a short period of time. This volatility is usually reduced, or hedged, by entering into currency swaps and other similar securities

Njihia (2013) states that when a business contract is entered into, with the agreement that payment will be settled at a later date, the exchange rate that exist on the date the contract is entered into and the date it is settled may change. Implying the cash flow of the firm is affected. He stated that the risk deals with changes in cash flows as the result of contractual

obligations, such as the effect of exchange rate moves on translational account risk related to receivables(export contracts), payables(import contracts) and dividend repatriation.

With this risk, a company's profitability depends on whether; the currency change can be anticipated in the future. This is difficult because most of the time the currency change is sudden and it doesn't have a systematic change, implying that companies exposed to transaction risks, their profits are negatively affected. For fuel companies in Uganda the fuel imported is eventually priced highly and this scares away customers and the consumption rates reduce hence lowering the profits.

2.7 Effect of transaction risks on sales revenue of fuel companies.

Oluka. M (2006) states that transaction risks occur when the value of the existing obligations is worsened by the movements in the foreign exchange rates.

Transaction risk mostly has a higher impact on profits than on sales, because it is mainly encountered with cash flows it deals with what you pay or what you receive. The effect it may have is when a business makes constant losses it won't be able to restock and hence the sales revenue is deducted.

A firm has transaction exposure whenever it has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. To realize the domestic value of its foreign-denominated cash flows, the firm must exchange foreign currency for domestic currency. As firms negotiate contracts with set prices and delivery dates in the face of a volatile foreign exchange market with exchange rates constantly fluctuating, the firms face a risk of changes in the exchange rate between the foreign and domestic currency. It refers to the risk associated with the change in the exchange rate between the time an enterprise initiates a transaction and settles it.

Applying public accounting rules causes firms with transactional exposures to be impacted by a process known as "re-measurement". The current value of contractual cash flows are re-measured at each balance sheet date. If the value of the currency of payment or receivable changes in relation to the firm's base or reporting currency from one balance sheet date to the next, the expected value of these cash flows will change. U.S. accounting rules for this process are specified in ASC 830, originally known as FAS 52. Under ASC 830, changes in the value of these contractual cash flows due to currency valuation changes will impact current income.

2.8 Conclusion.

Exchange rate risks impose a huge effect on the financial performance of fuel companies in Uganda and 80% of the effect is a negative effect. The price at which fuel companies import their good determines the price at which the fuel companies will price their goods.

The price that will be set determines the amount of sales the company will make and adversely the amount of profits. When a high price is set this scares away customers, some customers totally divert from using fuel and other reduce their consumption, hence reducing the sales. When the sales reduce the cash flows are negatively affected, thus the fuel companies now start to face difficulties in managing their costs of operations for example paying workers, paying water and electricity and the rest. With due effect the costs become greater than the revenue and the business begins to make losses. Hence exchange rate risks affect the financial performance of fuel companies.

CHAPTER THREE

METHODOLOGY

3.0 Introduction.

The chapter shows the data collection methods, instruments, the research design, study area, research population, sample size, sampling procedure and data collection resources. The chapter also explores the reliability and validity of the instruments, the research procedure, data analysis and ethical considerations as explained.

3.1 Research Design

Bryman A. (2003) defines research design as the frame work for the collection and analysis of data. This study employed a descriptive research design. Burns and Bush (2010) define a descriptive research design as a set of methods and procedures that describe variables. Churchill and Brown (2007) stated that a descriptive research design is typically concerned with determining the frequency with which something occurs or the relationship between variables. The design is appropriate for the study as it allows the description, interpretation of existing relationship and the comparison of variables under the study. (2003:19) also describe a qualitative approach as a systematic subjective approach used to describe life experiences and situations to give meaning. This approach focuses on natural occurring situations the encounters that people have in the normal course of events. This approach is appropriate to the study because it focuses on real life occurrences which relates to the study because it is looking at real life occurrences

3.2 Study Area

The study was conducted at Shell Fuel Petrol Station on Kampala Road. This petrol station is located in the center of Kampala City. The researcher chose this particular petrol station

because it is located in the city square and serves more than thousand people, so the researcher was able to get adequate information.

3.3 Study population

The population of interest in this study was composed of 65employees and their clients of eight fuel stations in center of Kampala. This is because the effects foreign exchange risks have on fuel companies affect the Ugandan Economy at large. The study is from the year 2014 to 2017.

3.4 Sample

Polit et al (2001:234) defines a sample as a proportion of a population.

3.5 Sample size

Sample size means the subset or portion of that population that was used in the study.

Considering eight petrol stations around the city square and eight employees in each we got a population of 64 people. Using the Morgan table, a population of 65 the sample size of 56 was used.

3.6 Sampling Procedure

Sampling is a process or technique of choosing a sub group from a population to participate in the study. The study used simple random sampling technique, where each person was given a chance to be picked.

3.7 Data sources

Primary data: The primary data was collected from the shell fuel petrol station Kampala road by use of the questionnaire: from the executive manager, financial manager and some of the workers present. The primary data was got from the different customers of the shell fuel petrol station.

Secondary data: The secondary data was collected from the individual company records and publications and from their website. The information collected is mainly to establish the financial performance of the fuel companies inform of sales and profits.

3.8 Instruments of data collection

3.8.1 Questionnaire

According to Kakooza T (2005) a questionnaire is a set of questions which respondents fill in writing and a collection of items which respondents respond to in writing. The primary data was collected using open ended and close ended questionnaires and they were self-administered in order to obtain a high response rate and reduce time on data collection. The questionnaire is to encourage respondents to give as much information as possible.

3.8.2 Interview

This method involves conversation between the researcher and interviewee. According to Kothari (2004) states that interview method involves presentation of oral verbal stimuli and reply in terms of oral verbal responses either face to face or through telephone. The researcher found this method appropriate for the study because explanations to the questions asked are given immediately and the researcher can ask for more clarification.

3.8.3 Company records and publications

The secondary data was collected from company records and publications. This stood to be the best method because there the information collected was justified from these records and this method reduces the chances of forgetfulness that caused the researcher to present wrong information.

3.9 Measurement of variables

The dependent variables are the exchange rate risks and the independent variables, the financial performance on fuel companies that is the sales and profits. The researcher used a close ended question where the respondent gave the response by checking on the box that feels suits the response to the question presented. They provided answers using a scale of 1to 5. The structure appeared as follows:

Strongly agree.1   Agree. 2   Neutral.3   Disagree.4   Strongly disagree. 5

3.10 Reliability and validity.

Validity: Validity looks at whether the data collected represents a true picture of what is being studied. This was checked by presenting the work to at least two experts who rated the items.

Reliability: Reliability looks at the assurance the data provides. Here the researcher checked the reliability by checking to see whether there is consistency in the responses given. This was done by asking the same questions in a different manner and on separate occasions. If the responses are consistent then there is assurance that the data is reliable.

The researcher first sought permission to carry out that research that is from Uganda Martyrs University and the manager of Shell Fuel Petrol station.

Confidentiality was at its peak, the researcher only and only used the data collected for the purpose of studying and nothing else, and there was no disclosure of information.

3.11 Study limitation

The study was limited to a specific area the shell petrol station Kampala road, so not adequate was be collected.

Not all questionnaires were filled because not all employees were around and not all of them were interested in filling in the questionnaire.

There is also a constraint of time; it was difficult to get amplitude time with the targeted people because they are working.

Language barrier was also a constraint. The researcher and respondents did not have the same language in common at some point.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.0. Introduction

This chapter presents the findings of this study. It highlights the characteristics of the respondents and presents the findings that were generated from interactions the findings on the Foreign exchange rate risks and effects on the financial performance of fuel companies in Uganda. The study based on the study objectives and the following results were established;

4.1 Response rate

The study had a sample size of 56 when questionnaires were distributed to respondents all the questionnaires where got back. Which implies a response rate of 100% as shown in the table below;

Table 4:1 showing the response rate of the respondents

Instruments	Targeted No	No of respondents	Percentage (%)
Questionnaires	45	45	80.4
Interviews held	11	11	19.6
Total	**56**	**56**	**100.0**

Source: Primary data 2017

Table 4.1 presents the distribution of the respondents according to the instruments used by the researcher. According to the above table, (80.4%) of the targeted respondents participated by responding to the questionnaires whereas (19.6%) participated by giving responses during the interview sessions. The outcome from the table shows that the level of participation was

absolutely effective and successful as shown by the number of the respondents in relation to the research instrument used as shown above.

4.2 General information

In this section, efforts were made to document the background information of the respondents which included gender, age group, marital status and academic qualification

4.2.1 Gender of the Respondents

Figure 4:1 Showing the Gender of the Respondents
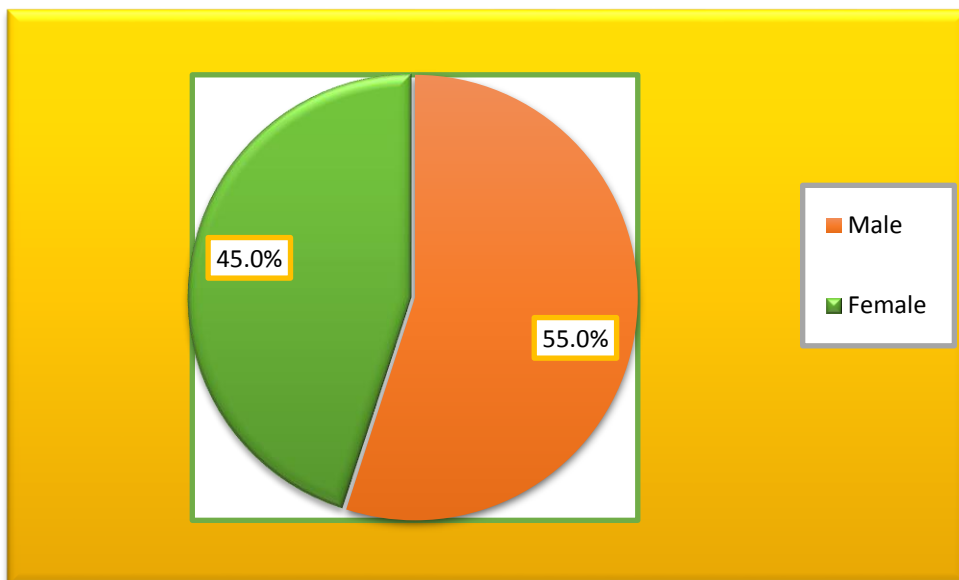
Source: Primary data

From figure 4.1 above, it was showed that the majority (55.0%) of the respondents were males while the minorities (45.0%) of the respondents were females. This helped the study to obtain views from different sex thus producing information that is not biased.

4.2.2 Age group of the Respondents

Table 4.2 Showing the Age group of the Respondents

	Age(Years)	Frequency (F)	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Valid	Below 20	5	8.9	8.9	8.9
	21 – 30	15	26.8	26.8	35.7
	31– 40	22	39.3	39.3	75.0
	Above 40	14	25.0	25.0	100.0
	Total	**56**	**100.0**	**100.0**	

Source: Primary data 2017

According to the results in table 4.2 above, it was indicated that the majority (39.3%) of the respondents were in the age group of 31-40 years, those were followed by (26.8%) who were in the age group of 21-30 years, then (25.0%) were above 40 years while the minority (8.9%) of the respondents were below 20 years. This implied that the study constituted of respondents distributed among different age groups and all these contributed differently to the topic under investigation.

4.2.3 Marital Status of the Respondents

Figure 4.2 Showing the Marital Status of the Respondents
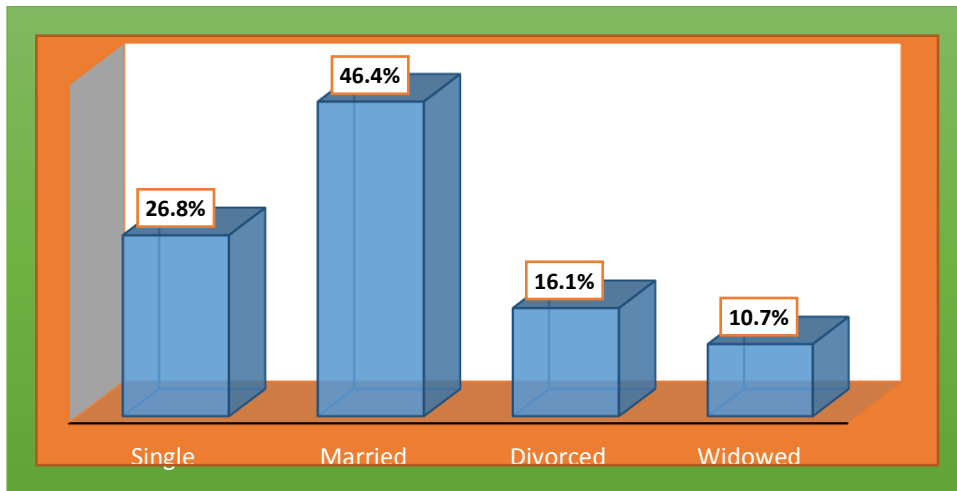
Source: Primary data 2017

According to figure 4.2 above, the majority (46.4%) of the respondents were married, (26.8%) of the respondents were single; those were followed by (16.1%) who had divorced whereas the minority (10.7%) of the respondents were widowed. This implied that that the researcher obtained views from distinct groups which helped in compiling a report with unbiased data.

4.2.4 Education Level of the Respondents

Table 4.3 Showing Education Level of the Respondents

	Level	Frequency (F)	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Valid	Certificate	13	23.2%	23.2%	23.2%
	Diploma	15	26.8%	26.8%	50.0%
	Degree	24	42.9%	42.9%	92.9%
	Masters	4	7.1%	7.1%	100.0%
	Total	56	100.0%	100.0%	

Source: Primary data 2017

Results from table 4.2 showed the majority (42.9%) of the respondents were degree holders, those were followed by (26.8%) who had attained a diploma, (23.2%) had a certificate whereas the minority (7.1%) had masters. This helped the researcher to quickly collect data since the respondents were able to read, write and interpret the questionnaire.

4.3 Effects transaction risks have on the financial performance of fuel companies

The first objective of the study was to examine the relationship and effects transaction risks have on the financial performance of fuel companies. The findings were presented, analysed and interpreted in percentages and frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD).

Table 4.4 Effects transaction risks on the financial performance of fuel companies

Effects	SA		A		NS		D		SD	
Cash flows have been positively affected by the variations in the exchange rates for the past two years.	25	55.6%	16	35.6%	2	4.4%	1	2.2%	1	2.2%
Profits are determined by whether the change in currency favours our company.	22	48.9%	18	40.0%	5	11.1%	0	0.0%	0	0.0%
Profits are determined by the results from our contractual obligations (payables).	14	31.1%	17	37.8%	5	11.1%	4	8.9%	5	11.1%
A change in exchange rates affects our payables (import contracts) positively.	25	55.6%	11	24.4%	4	8.9%	3	6.7%	2	4.4%
A change in the value of foreign currency is related to our sales revenue derived from offshore of enterprises.	14	31.1%	23	51.1%	5	11.1%	3	6.7%	0	0.0%

Source: Primary data 2017

According to the findings of the study, the majority (55.6%) of the respondents strongly agreed that Cash flows have been positively affected by the variations in the exchange rates for the past two years, those were followed by (35.6%) who agreed, (4.4%) were not sure whether Cash flows have been positively affected by the variations in the exchange rates for

the past two years whereas (2.2%) and (2.2%) disagreed and strongly disagreed respectively. This was

In relation to the findings of the study, the majority (48.9%) of the respondents strongly agreed that profits are determined by whether the change in currency favours their company, those were followed by (40.0%) who agreed whereas the minority (11.1%) were not sure if the profits are determined by whether the change in currency favours their company. This was in agreement with findings by Mark Grinbatt and Sheridan Titman (2002) who stressed that changes in the value of exchange associated with exchange rate changes often reflect the economic changes that affect the future profitability of the firm.

With considerations to the findings of the study, the majority (37.8%) of the respondents agreed that profits are determined by the results from their contractual obligations, those were followed by (31.1%) who strongly agreed, (11.1%) were not sure whether profits are determined by the results from their contractual obligations whereas (8.9%) and (11.1%) disagreed and strongly disagreed respectively.

From the study findings, the majority (55.6%) of the respondents strongly agreed that a change in exchange rates affects the company payables positively, those were followed by (24.4%) who agreed, (8.9%) were not sure whether a change in exchange rates affects the company payables positively, (6.7%) disagreed whereas the minority (4.4%) of the respondents strongly disagreed. With reference to interview findings, one of the respondents explained that;

"*If the exchange rates change in favor of the local currency then the company payables positively affected but if the exchange rates change in favor of the foreign currency then the company payables negatively affected*"

In addition to the above, the study findings showed that the majority (51.1%) of the respondents agreed that a change in the value of foreign currency is related to the company sales revenue derived from offshore of enterprises, those were followed by (31.1%) who agreed-, (11.1%) were not sure whether a change in the value of foreign currency is related to the company sales revenue derived from offshore of enterprises whereas the minority (6.7%) of the respondents disagreed. This was in line with interview findings where one of the respondents stated that;

"*When cash flows are affected negatively by economic risks then the sales revenue of a company will be negatively affected and if cash flows are positively affected by economic risks then the sales revenue will be positively affected*"

4.4 Effects translation risks have on the financial performance of fuel companies

The first objective of the study was to examine the relationship and effects translation risks have on the financial performance of fuel companies. The findings were presented, analysed and interpreted in percentages and frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD)

Table 4.5: Effects translation risks have on the financial performance of fuel companies

Effects	SA		A		NS		D		SD	
Contracts, agreements, purchases and sales are negatively affected by a change in exchange rates at the beginning and end of the accounting period.	13	28.9%	24	53.3%	5	11.1%	2	4.4%	1	2.2%
Profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates.	19	42.2%	19	42.2%	4	8.9%	3	6.7%	0	0.0%
The sales revenue we make depends on the spot exchange rate at the time of settlement.	12	26.7%	24	53.3%	9	20.0%	0	0.0%	0	0.0%
Revenues and expenses dominated in foreign currency are determined by changes in exchange rates.	28	62.2%	14	31.1%	2	4.4%	1	2.2%	0	0.0%
It is difficult to measure the value of currency hence difficult to determine a company's sales over a period of time.	14	31.1%	24	53.3%	5	11.1%	1	2.2%	1	2.2%

Source: Primary data 2017

From the study findings, the majority (53.3%) of the respondents agreed that c

contracts, agreements, purchases and sales are negatively affected by a change in exchange rates at the beginning and end of the accounting period, those were followed by (28.9%) who strongly agreed, (11.1%) were not sure about this, (4.4%) disagreed whereas the minority (2.2%) of the respondents strongly disagreed. This was supported by the interview findings where one of the respondents pointed out that;

"When our company enters into contract with the agreement that payment will be settled at a later date, the exchange rate that exist on the date the contract is entered into and the date it is settled may change"

According to the study findings, it was indicated that (42.2%) of the respondents strongly agreed that profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates, (42.2%) agreed, (8.9%) were not sure whether profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates whereas the minority (6.7%) of the respondents disagreed. This was in agreement with findings by Shapiro (2006) who opined that if exchange rates have changed, liabilities, revenues, expenses, gains and losses dominated in foreign currency will result into foreign exchange gains or losses

In consideration to the findings of the study, it was indicated that the majority (53.3%) of the respondents agreed that the sales revenue companies make depends on the spot exchange rate at the time of settlement, those were followed by (26.7%) strongly agreed whereas the minority (20.0%) were not sure whether sales revenue companies make depends on the spot exchange rate at the time of settlement. This was supported by the interview findings where one of the respondents pointed out that:

"Spot exchange rates are determined by speculation most times and this makes difficult to predict what the spot exchange rate will be at a certain period of time therefore there is no guarantee of the expected revenue"

In addition to the above, the study findings presented that the majority (53.1%) of the respondents agreed that it is difficult to measure the value of currency hence difficult to determine a company's sales over a period of time, those were followed by (31.1%) who strongly agreed, (11.1%) were not sure whether is difficult to measure the value of currency

whereas (2.2%) and (2.2%) disagreed and strongly disagreed respectively. This meant that the domestic value is always changing thus making it difficult to determine selling prices.

4.5 Effects economic risks have on the financial performance of fuel companies

The first objective of the study was to examine the relationship and effects economic risks have on the financial performance of fuel companies. The findings were presented, analyzed and interpreted in percentages and frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD)

Table 4.6 showing the effects economic risks have on the financial performance of fuel companies

Effects	SA		A		NS		D		SD	
Immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates.	15	33.3%	19	42.2%	8	17.8%	3	6.7%	0	0.0%
Profits are negatively affected by the unexpected changes in the exchange rates.	25	55.6%	20	44.4%	0	0.0%	0	0.0%	0	0.0%
Profits a hurt by inefficient and ineffective management of the economy.	15	33.3%	22	48.9%	5	11.1%	2	4.4%	1	2.2%
The risks on our profits are high because we mainly deal in importation.	21	46.7%	14	31.1%	6	13.3%	2	4.4%	2	4.4%
Sudden changes in exchange rates increase costs of operation.	27	60.0%	15	33.3%	0	0.0%	3	6.7%	0	0.0%

Source: primary data 2017

In consideration to the findings of the study, it was indicated that the majority (42.2%) of the respondents agreed that immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates, those were followed by (33.3%) strongly agreed, (17.8%) were not sure whether immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates while the minority (6.7%) of the respondents disagreed. This was supported by the interview findings where one of the respondents mentioned that:

"*On circumstances when the foreign currency (dollars) depreciates in relation to Ugandan currency then the company cash flows are positively affected*"

According to the findings of the study, it was revealed that the majority (55.6%) of the respondents strongly agreed that profits are negatively affected by the unexpected changes in the exchange rates whereas the minority (44.4%) of the respondents agreed. This was in line with the interview findings where one of the respondents mentioned that:

"*In case of change in exchange rates where our company has to less Uganda shillings in exchange for the dollar to purchase the fuel, then the companies sell at relative prices of fuel get the expected profits*"

In relation to the findings of the study, it was presented that the majority (48.9%) of the respondents agreed that profits are hurt by inefficient and ineffective management of the economy, those were followed by (33.3%) who strongly agreed, (11.1%) were not sure whether profits are hurt by inefficient and ineffective management of the economy (4.4%) disagreed while the minority (2.2%) of the respondents strongly disagreed. This implied if the economy is unstable for example inflation which makes the domestic currency depreciate in relation to foreign currency then profits will be limited since importing will be expensive.

From the findings of the study, it was showed that the majority (46.7%) of the respondents agreed that the risks on company profits were high because it mainly dealt in importation, those were followed by (31.1%) who strongly agreed, (13.3%) were not sure whether risks on company profits were high because it mainly dealt in importation whereas (4.4%) and (4.4%) disagreed and strongly disagreed respectively. This was in line with Sheridan Titman (2002) accentuated that when the Ugandan shilling depreciates against the US dollars, the fuel importers face a high expense in paying for the fuel, as a result this will charge the final consumers highly. He added that the revenues of the fuel importers will significantly reduce as the consumers will reduce on the amount of consumption of fuel.

In addition to the above, findings of the study revealed that the majority (60.0%) of the respondents strongly agreed that sudden changes in exchange rates increase costs of operation, those were followed by (33.3%) who agreed while the minority (6.7%) of the respondents disagreed. This depicted that changes where a domestic currency depreciates than, a company will need more money to effectively manage its operations.

4.6 Conclusion.

From the findings the researcher has established that exchange rate risks pose a great effect on the financial performance of fuel companies. The researcher drew conclusions from the findings that this effect is mainly a negative on the financial performance of fuel companies, so there is need for these fuel companies to find ways of controlling the foreign exchange risks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1   Introduction

This chapter presents the summary of the findings and conclusions derived from the study based on the findings presented in data analysis and the study objectives. The chapter also brings forward the recommendations, as well as identifying the areas for further studies.

5.2   Summary of the findings

5.2.1 Transaction risks and financial performance of fuel companies.

The findings testified that the majority (91.2%) generally agreed that Cash flows have been positively affected by the variations in the exchange rates for the past two years and that Profits are determined by whether the change in currency favors our company. It was also revealed that Profits are determined by the results from our contractual obligations (payables), A change in exchange rates affects our payables (import contracts) positively. Additionally, the study revealed that a change in the value of foreign currency is related to our sales revenue derived from offshore of enterprises. Therefore, the study revealed that their transaction risks affected financial performance of fuel companies. This is in line with Shapiro (2006) who notes that transaction risk as the extent to which given exchange rate will change the value of foreign currency dominated transactions which have already been entered into by the company. When a business contract is entered into, with the agreement that payment will be settled at a later date, the exchange rate that exist on the date the contract is entered into and the date it is settled may change. Implying the cash flow of the firm is affected.

5.2.2 Translation risks and financial performance of fuel companies

The study revealed that majority of the respondents (95.4%) agreed that Contracts, agreements, purchases and sales are negatively affected by a change in exchange rates at the beginning and end of the accounting period. It was also revealed that Profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates and also that the sales revenue we make depends on the spot exchange rate at the time of settlement. The study findings further revealed that Liabilities, revenues, expenses, gains and losses dominated in foreign currency are determined by changes in exchange rates in addition to the fact that it is difficult to measure the value of currency hence difficult to determine a company's sales over a period of time. The findings rhymed with Madura (2003) who states that translation risks arise from currency mismatch and it is related to assets or income derived from offshore of enterprises. Translation risk is the effect exchange rate risks have on the figures shown on the parent company's balance sheet. Thus while income statements are usually translated at the average exchange rate over the period, the balance sheet exposures of foreign subsidiaries are often translated at the prevailing exchange rate at the time of consolidation

5.2.3 Economic risks and financial performance of fuel companies

The study further revealed that the majority of the respondents (75.5%) agreed that immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates and also that profits are negatively affected by the unexpected changes in the exchange rates. It was also revealed that profits a hurt by inefficient and ineffective management of the economy, the risks on our profits are high because we mainly deal in importation and also that Sudden changes in exchange rates increase costs of operation. It was also revealed that devaluation in local currency brings in low returns/sales for fuel companies. The findings rhymed with Gomezi and Balkin (2002) stated that when firms enter

international markets, they are subjected to economic shifts that may have a major effect on earnings. They stated that devaluation occurs when more local currency is needed to obtain a given amount of foreign currency, in effect making the local currency less worth outside the country. If the local currency is devalued the relative to the company's domestic currency, the company may receive less money for its products and services than it expected. To maintain profit levels, the firm would have to raise its prices, which may lead to fewer sales.

5.3 Conclusions

In conclusion Cash flows have been positively affected by the variations in the exchange rates for the past two years and that Profits are determined by whether the change in currency favors the company and a change in the value of foreign currency is related to our sales revenue derived from offshore of enterprises. Further, Contracts, agreements, purchases and sales are negatively affected by a change in exchange rates at the beginning and end of the accounting period. It was also revealed that Profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates and also that the sales revenue we make depends on the spot exchange rate at the time of settlement. It can also be concluded that immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates and also that profits are negatively affected by the unexpected changes in the exchange rates.

5.4 Recommendations

Based on this study, the researcher recommended the following;

It is recommended that alternative methods of managing foreign exchange risk can be used when the timing of the foreign currency inflows and outflows don't match. The timing issues can be managed by depositing surplus foreign currency in a foreign currency account for later

use, or by borrowing foreign currency to pay for foreign currency purchases, and then using the foreign currency to repay the loan

Since economic risk is difficult to quantify but a favoured strategy to manage it is to diversify internationally, in terms of sales, location of production facilities, raw materials and financing. Such diversification is likely to significantly reduce the impact of economic exposure relative to a purely domestic company, and provide much greater flexibility to react to real exchange rate change

It is also important to adopt money market hedges. The basic idea is to avoid future exchange rate uncertainty by making the exchange at today's spot rate instead. This is achieved by depositing/borrowing the foreign currency until the actual commercial transaction cash flows occur. This effectively fixes the future rate.

5.5 Areas for further study

During the study, there were areas that were beyond the scope of the study that called for further investigation: Future studies should concentrate on other factors that attracting foreign Direct Investments since this study did not focus on other factors are affect attracting foreign Direct Investments like the environment, fiscal Policies, and acceptance and issues related with the policies regulation of the government.

Due to the limitation of time the same study could be conducted a few years from now in order to establish if there are any changes in the foreign exchange risks on the performance of fuel companies within this environment.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Introduction

I am called **Immaculate Mujuni** am a third year student of Uganda Martyrs University. I am carrying out a research entitled "Foreign exchange rate risks and effects on the **financial performance of fuel companies in Uganda," with a case study: Fuel Petrol Stations around business area of Kampala.** We found it necessary to involve you in the study, so we prepared an interview and questionnaire to which we humbly request you respond to. There are no foreseeable risks associated with your participation in this study, all the findings will be purposely for the study and the data obtained will be reported in the dissertation anonymously.

SECTION A: Demographic Characteristics

Tick / fill in the most appropriate answer.

1. Gender:

   a) Female ☐   b) Male ☐

2. Age

   a) Below 20 years ☐   b) 21 –30 years ☐   c) 31 – 40 years ☐

   d) Above 40 years. ☐

3. Marital status

   a) Single ☐   b) Married ☐   c) Divorced ☐   e) Widowed ☐

4. Highest level of education Qualification

   a) Certificate ☐   b) Diploma ☐   c) Degree ☐   d) Masters ☐

   e) Others (specify) …………….........................

Please indicate the extent to which you agree or disagree to the following statements by checking the appropriate number.

Strongly agree	Agree	Neutral	Strongly disagree	Disagree
5	4	3	2	1

Definitions

Foreign subsidiaries companies. These are partially or wholly owned companies that are a part of a large corporation with the headquarters in another country.

Spot exchange rates. This is the price to exchange one currency for another for immediate delivery.

SECTION B: Transaction risks and financial performance of fuel companies.

Transaction risks	5	4	3	2	1
5. Our cash flows have been positively affected by the variations in the exchange rates for the past two years.					
6. Our profits are determined by whether the change in currency favours our company.					
7. Our profits are determined by the results from our contractual obligations (payables).					
8. A change in exchange rates affects our payables (import contracts) positively.					
9 A change in the value of foreign currency is related to our sales revenue derived from offshore of enterprises.					

SECTION C: Translation risks and financial performance of fuel companies

No	Translation risks	5	4	3	2	1
10	Our contracts, agreements, purchases and sales are negatively affected by a change in exchange rates at the beginning and end of the accounting period.					
11	Our profits are affected when the balance sheet exposures for foreign subsidiaries are consolidated at the prevailing exchange rates.					
12	The sales revenue we make depends on the spot exchange rate at the time of settlement.					
13	Our Revenues and expenses dominated in foreign currency are determined by changes in exchange rates.					
14	It is difficult for us to measure the value of our currency hence difficult for us to determine our sales over a period of time.					

SECTION D: economic risks and financial performance of fuel companies

No	economic risks	5	4	3	2	1
16	Our immediate cash flows and future cash flows are positively affected by unexpected changes in exchange rates.					
17	Our profits are negatively affected by the unexpected changes in the exchange rates.					
18	Our profits a hurt by inefficient and ineffective management of the economy.					
19	The risks on our profits are high because we mainly deal in importation.					
20	Sudden changes in exchange rates increase our costs of operation.					

Thank you for your cooperation

APPENDIX II

INTERVIEW GUIDE

I am called Immaculate Mujuni am a third year student of Uganda Martyrs University. I am carrying out a research entitled "Foreign exchange rate risks and effects on the financial performance of fuel companies in Uganda," with a case study: Fuel petrol stations located in the central business center of Kampala. We found it necessary to involve you in the study, so we prepared an interview and questionnaire to which we humbly request you respond to. There are no foreseeable risks associated with your participation in this study, all the findings will be purposely for the study and the data obtained will be reported in the dissertation anonymously.

1. Have the sudden changes in the exchange rates for the past two years negatively affected your profits? If yes how?

2. Have the movements in the foreign exchange rates led you to meet higher contractual obligations?

3. Do the exchange rate shifts have a positive effect on your cash flows?

4. Is it easy for your company to anticipate its sales revenue at the end of the accounting period with these shifts in exchange rates?

5. Have your sales and profits increased or reduced for the past two years?

Thank you for your time