

FRED'S INC. CORPORATE GOVERNANCE GUIDELINES

The following Corporate Governance Guidelines have been adopted by the Board of Directors (the "Board") of Fred's, Inc. (the "Company") to assist the Board in the exercise of its responsibilities to the Company and its shareholders. These Guidelines should be interpreted in the context of all applicable laws and the Company's Charter, as amended and Amended and Restated Bylaws and other corporate governance documents, and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. These Guidelines are subject to modification and the Board shall be able, in the exercise of its discretion, to deviate from these Guidelines from time to time, as the Board may deem appropriate or as required by applicable laws and regulations.

1. Board Size

It is the sense of the Board that a size of five to nine directors is appropriate. However, the Board would be willing to consider a somewhat larger size in order to accommodate the availability of an outstanding candidate.

2. Board Meetings

The Board will meet at least quarterly and will hold additional meetings when needed. Directors are expected to attend regularly Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to discharge properly their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting generally should be distributed in writing to the directors before the meeting, and directors should review these materials in advance of the meeting.

3. Chairman of the Board and Lead Director

The Board shall elect a chairman of the Board from its members (the "Chairman"). The offices of Chairman of the Board and CEO may be combined and at times separated, as the Board deems appropriate in light of prevailing circumstances. The Board believes that the combination or separation of these offices should be considered as part of the Company's succession planning and determined when it elects a new CEO.

If the Chairman is also a member of senior management of the Company (i.e. CEO, CFO, etc.), the Board shall elect an independent Director to serve as Lead Director. The Lead Director's Role shall be:

- To consult with and act as a liaison between the Board and CEO;
- To preside over Board meetings in the absence of the Chairman;
- To coordinate the activities of the other Non-Management Directors, including the establishment of the agenda for executive sessions of the non-employee Directors and independent Directors; and

- Serve as a contact for interested parties to express opinions and concerns to the non-employee Directors.
- The Lead Director shall be authorized to call meetings of the non-employee or independent Directors.

4. Board Committees

The Board will have an Audit Committee, a Compensation Committee, Nominating Committee, Governance Committee and Pharmacy Committee. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate in recognition of changing trends or company needs.

The members of the Audit Committee, the Compensation Committee, the Nominating Committee and the Governance Committee will be independent directors under the criteria established by the Marketplace Rules of the NASDAQ Stock Market and Securities and Exchange Commission requirements. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board.

The Chairman of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. All meetings of each committee shall be held pursuant to the Amended and Restated Bylaws of the Company with regard to notice and waiver thereof, and written minutes of each meeting. A report regarding each committee meeting will be provided to the full Board, as appropriate. In addition, the Chairman of each committee will report to the full Board regarding matters that should be brought to the attention of the Board.

The Board and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

Directors are expected to serve on Board committees. If possible, a director will be appointed to the committee(s) in which he or she is interested.

5. Director Qualifications

The Board will have a majority of directors who meet the criteria for independence required under the Marketplace Rules of the NASDAQ Stock Market and Securities and Exchange Commission requirements. The Nominating and Governance Committees are responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics that the Board seeks in Board members as well as the composition of the

Board as a whole, including an annual evaluation of whether members qualify as independent under applicable standards. During the course of a year, directors are expected to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as independent.

Nominees for director will be selected on the basis of the following criteria:

- Character, personal and professional ethics, integrity and values;
- Executive level business experience and acumen;
- Relevant business experience or knowledge (although preference may be shown for experience in or knowledge of the retail industry, it is not a prerequisite;
- Skills and expertise necessary to make significant contributions to the Company, its Board and its shareholders;
- Business judgment;
- Availability and willingness to serve on the Board;
- Independence requirements of NASDAQ
- Potential conflicts of interest with the Company or its shareholders taken as a whole; and
- Accomplishment within the candidate's own field.

The Board strives to nominate diverse candidates for service on the Board of Directors who have a variety of skills and experience. The Board will not discriminate on the basis of race, color, national origin, gender, sexual orientation, religion, or disability in selecting nominees.

6. Director Nominee Process

The Nominating Committee shall meet at least annually and more often if necessary to make nominations to the Board. The Nominating Committee will consider shareholder nominations for candidates to the Board sent to the Nominating Committee, c/o Mark C. Dely, Corporate Secretary, Fred's, Inc., 4300 New Getwell Road, Memphis, TN 38118. To be considered for nomination, a shareholder must provide the following:

- Proof of the shareholder's eligibility to submit proposals in accordance with Rule 14a-8(b) of the Securities Exchange Act of 1934, as amended;
- A complete description of the candidate's qualifications, experience, accomplishments and background; and
- The candidate's signed consent to serve on the Board

Recommendations by shareholders that are made in accordance with these procedures will be evaluated using the same standards the Nominating committee uses for candidates it identifies. The Nominating Committee has the full discretion not to include a shareholder's candidate in its recommendation to the Board. If the Nominating Committee does not recommend a shareholder's candidate to the Board, it

will not make public the reason or reasons for its decisions. In addition to considering candidates suggested by the shareholders, the committee considers potential candidates recommended by current directors, Company officers, employees and others and may engage consultants or third-party search firms in identifying and evaluating potential nominees. Before recommending any candidate, the Nominating Committee will also:

- Consider whether the candidate will significantly add to the diverse range of talents, skills and expertise of the Board;
- Conduct appropriate verifications of the background of the candidate; and
- Interview the candidate or ask the candidate for additional information.

It is the sense of the Board that individual directors who significantly change responsibilities or job positions should inform the Board of the change. It is not the sense of the Board that in every instance the directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board, through the Nominating and Governance Committees, to review the continued appropriateness of Board membership under the circumstances.

Directors should advise the Chairman of the Board and the Chairmen of the Nominating and Governance Committees in advance of accepting an invitation to serve on another public company board. No member of the Audit Committee may serve on more than two other public company audit committees without first obtaining the prior approval of the Board.

Directors shall be elected by shareholder votes as provided by Tennessee Law. The term of a director is for one year.

7. Board's Role and Responsibilities

The basic responsibility of the directors is to oversee the affairs of the Company for the benefit of the Company's shareholders, while day-to-day operations of the corporation is generally the responsibility of management. In carrying out their responsibilities, Directors shall exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders, and to perform their duties of care and loyalty. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors, to the fullest extent permitted by law. The directors also shall be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, with the benefits of: (i) indemnification to the fullest extent permitted by law and the Company's Restated Charter, Amended and Restated Bylaws and any indemnification agreements; and (ii) limitation on liability to the Company as provided by state law and the Company's Restated Charter.

The specific duties and responsibilities of the Board will include, among other things, the following:

- Providing general strategic guidance and oversight to the Company's management, including with respect to the Company's current performance, its long-term strategic plans and financial objectives and the principal risk exposures of the Company;
- Evaluating the performance of the Company and its senior management;
- Develop and manage the Company's succession plans, particularly with respect to senior management such as the CEO and CFO;
- Assisting management in the oversight of processes designed to ensure compliance by the Company with applicable laws and regulations, including in connection with the public reporting obligations of the Company and maintenance of necessary accounting, financial, and other controls.;
- Evaluating the overall effectiveness of the Board and its Directors as well as selecting and recommending to shareholders for election an appropriate slate of Director nominees for election to the Board.

An agenda for each meeting shall be prepared by the Chairman. Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year. All meetings of the Board shall be held pursuant to the Amended and Restated Bylaws of the Company with regard to notice and waiver thereof, and written minutes of each meeting, in the form approved by the Board, shall be duly filed in the Company records.

The non-employee directors will meet in executive session at least quarterly. If any outside director is not independent, at least once per year the independent directors shall meet alone in an executive session.

To foster open discussions, the proceedings and deliberations of the Board are confidential. Each director will maintain confidentiality of non-public information received from the Company or its advisors. Consistent with these confidentiality requirements, the Board believes that the management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected, however, that Board members would do this with the knowledge of the management. The Board should ensure that information about sales, earnings, and important developments within the Company is provided by management to shareholders, potential shareholders and the investment community. Generally, directors should refer investors, market professionals and the media to the CEO or another individual designated by the Company.

The Board acknowledges that proxy cards, ballots and voting tabulations that identify shareholders will be kept confidential unless disclosure is: (i) necessary to meet applicable legal requirements or to assert or defend claims for or against the Company; (ii) expressly requested by the shareholder (and then disclosure is limited to that particular shareholder's vote); or (iii) made during a contested proxy solicitation.

8. Director Access to Officers, Associates and Outside Advisors

Directors have full and free access to officers and other associates of the Company and the Company's outside advisors. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company. It is the expectation of the Board that directors will keep the CEO informed of communications between a director and an officer or other associate of the Company, as appropriate.

At least once per year management will report to the Board regarding management development and succession, and long-term strategic planning.

Inclusion of the CEO and other executives on the Board provides the Board with information and insight about the Company. Other executives may attend Board meetings or committee meetings at the invitation of the Chairman of the Board or the CEO to provide information and insight to the Board.

9. Director Compensation

The form and amount of director compensation will be reviewed and recommended by the Compensation Committee to the Board for approval in accordance with applicable legal and regulatory guidelines and the Compensation Committee Charter. The Compensation Committee will conduct a review of director compensation at least every two years. All changes to Director Compensation must be unanimously approved by the Directors consistent with the Company Bylaws.

10. Share Ownership Guidelines

The Company believes that it is important for each director and key senior executive to have a meaningful ownership interest in the Company. Stock ownership aligns the interests of senior executives with the interests of shareholders and promotes a long-term focus toward management of the Company. For purposes of these guidelines, shares of unrestricted stock, restricted stock and vested incentive or non-qualified stock options with a fair market value above the grant exercise price shall qualify as common stock. Therefore, directors and key senior executives are expected to retain awarded stock, options, and equivalents until they reach the following accumulation thresholds, unless excepted by the Company for the payment of resultant income taxes. These guidelines are as follows:

Non-Employee Directors

Non-employee directors are expected to acquire and hold during their tenure as a Board member of the Company shares of the Company's common stock equal in value to at least 4 times the annual retainer for non-employee directors. Non-employee directors shall have 5 years from the effective date of implementation of the policy or their initial election to the Board to meet the target stock ownership guideline, and they are expected to continuously own (i.e., retain) sufficient shares to meet the guideline once attained.

CEO, President and CFO

The CEO is expected to acquire and hold during his or her tenure shares of the Company's common stock equal in value to at least 3 times his or her base salary, the President is expected to acquire and hold during his or her tenure shares of the Company's common stock equal in value to at least 2.5 times his or her base salary, and the CFO is expected to acquire and hold during his or her tenure shares of the Company's common stock equal to at least 2 times his or her base salary. The CEO, President and CFO shall have 5 years from the effective date of implementation of the policy or their initial appointment to the position to meet the target stock ownership guideline, and they are expected to continuously own (i.e., retain) sufficient shares to meet the guideline once attained.

11. Director Orientation and Continuing Education

Each new director must participate in the Company's Orientation Program, which should be conducted within a reasonable period of time after a director is first elected to the Board. This orientation will include familiarizing new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its principal officers, and its internal and independent auditors. In addition, the Orientation Program will include a visit to the Home Office of the Company to meet with senior management, including the Chief Legal Officer regarding his or her legal duties as a director, and store visits to understand better the Company's business and culture.

Each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. The Company may, from time to time, offer continuing education programs to assist the directors in maintaining such level of expertise and reimburse directors for attendance at such programs.

12. Annual Performance Evaluation

The Chairman of the Board will conduct an annual review of the CEO's performance after consulting with the directors. The Board will review the Chairman's report in order to ensure that the CEO is providing the best leadership for the Company in the long- and short-term.

The Board and the committees will conduct annual self-evaluations to determine whether they are functioning effectively. The Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance, as well as the performance of the committees. This will be discussed with the full Board following completion of the assessment. The assessment will focus on the Board's and each committee's contribution to the Company and specifically focus on areas in which the Board and each committee believe improvement could occur.

13. Code of Conduct and Conflicts of Interest

The Company has issued a Code of Business Conduct and Ethics and related policies designed to ensure full and accurate disclosure with respect to required financial disclosures and to avoid inappropriate conflicts of interest and to require Company approval for any conflicts when appropriate. The Directors agree to abide by these policies. In addition, the Board will annually review the relationships each director has with the Company to determine their status of independence according to securities and exchange listing regulations.

These guidelines were most recently amended on January 9, 2015.