



**Sequoia  
Fund, Inc.**

**ANNUAL  
REPORT  
DECEMBER 31, 2006**

**SEQUOIA FUND, INC.**  
**ILLUSTRATION OF AN ASSUMED INVESTMENT OF \$10,000**  
**With Income Dividends Reinvested and Capital Gains**  
**Distributions Accepted in Shares**

The table below covers the period from July 15, 1970 (the date Fund shares were first offered to the public) to December 31, 2006. This period was one of widely fluctuating common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the Fund today.

<b>PERIOD ENDED:</b>	<b>Value of Initial \$10,000 Investment</b>	<b>Value of Cumulative Capital Gains Distributions</b>	<b>Value of Cumulative Reinvested Dividends</b>	<b>Total Value of Shares</b>
July 15, 1970 .....	\$ 10,000	\$ —	\$ —	\$ 10,000
May 31, 1971 .....	11,750	—	184	11,934
May 31, 1972 .....	12,350	706	451	13,507
May 31, 1973 .....	9,540	1,118	584	11,242
May 31, 1974 .....	7,530	1,696	787	10,013
May 31, 1975 .....	9,490	2,137	1,698	13,325
May 31, 1976 .....	12,030	2,709	2,654	17,393
May 31, 1977 .....	15,400	3,468	3,958	22,826
Dec. 31, 1977 .....	18,420	4,617	5,020	28,057
Dec. 31, 1978 .....	22,270	5,872	6,629	34,771
Dec. 31, 1979 .....	24,300	6,481	8,180	38,961
Dec. 31, 1980 .....	25,040	8,848	10,006	43,894
Dec. 31, 1981 .....	27,170	13,140	13,019	53,329
Dec. 31, 1982 .....	31,960	18,450	19,510	69,920
Dec. 31, 1983 .....	37,110	24,919	26,986	89,015
Dec. 31, 1984 .....	39,260	33,627	32,594	105,481
Dec. 31, 1985 .....	44,010	49,611	41,354	134,975
Dec. 31, 1986 .....	39,290	71,954	41,783	153,027
Dec. 31, 1987 .....	38,430	76,911	49,020	164,361
Dec. 31, 1988 .....	38,810	87,760	55,946	182,516
Dec. 31, 1989 .....	46,860	112,979	73,614	233,453
Dec. 31, 1990 .....	41,940	110,013	72,633	224,586
Dec. 31, 1991 .....	53,310	160,835	100,281	314,426
Dec. 31, 1992 .....	56,660	174,775	112,428	343,863
Dec. 31, 1993 .....	54,840	213,397	112,682	380,919
Dec. 31, 1994 .....	55,590	220,943	117,100	393,633
Dec. 31, 1995 .....	78,130	311,266	167,129	556,525
Dec. 31, 1996 .....	88,440	397,099	191,967	677,506
Dec. 31, 1997 .....	125,630	570,917	273,653	970,200
Dec. 31, 1998 .....	160,700	798,314	353,183	1,312,197
Dec. 31, 1999 .....	127,270	680,866	286,989	1,095,125
Dec. 31, 2000 .....	122,090	903,255	289,505	1,314,850
Dec. 31, 2001 .....	130,240	1,002,955	319,980	1,453,175
Dec. 31, 2002 .....	126,630	976,920	311,226	1,414,776
Dec. 31, 2003 .....	147,610	1,146,523	362,790	1,656,923
Dec. 31, 2004 .....	154,270	1,200,687	379,159	1,734,116
Dec. 31, 2005 .....	155,450	1,331,529	382,059	1,869,038
Dec. 31, 2006 .....	152,750	1,496,788	375,422	2,024,960

The total amount of capital gains distributions accepted in shares was \$931,732, the total amount of dividends reinvested was \$116,740.

No adjustment has been made for any taxes payable by shareholders on capital gain distributions, dividends reinvested in shares or sale of Fund shares.

# To the Shareholders of Sequoia Fund, Inc.

Dear Shareholder:

Sequoia Fund's results for the quarter and year ended December 31, 2006 appear below along with comparable results for the market indexes:

To December 31, 2006	Sequoia Fund	Dow Jones Industrials*	Standard & Poor's 500*
Fourth Quarter	3.40%	7.39%	6.70%
1 Year	8.34%	19.05%	15.80%
5 Years (Annualized)	6.86%	6.81%	6.19%
10 Years (Annualized)	11.57%	8.91%	8.42%

The performance shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown.

## Comparison of a change in value of a \$10,000 Investment in Sequoia Fund and the S&P 500 Index\*



\*The S&P 500 Index is an unmanaged, capitalization-weighted index of the common stocks of 500 major US corporations. The Dow Jones Industrial Average is an unmanaged, price-weighted index of 30 actively traded blue chip stocks. The performance data quoted represents past performance and assumes reinvestment of dividends. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Year to date performance as of the most recent month end can be obtained by calling DST Systems, Inc. at (800) 686-6884.

Sincerely,

Richard T. Cuniff  
Vice Chairman  
February 21, 2007

Robert D. Goldfarb  
President

David M. Poppe  
Executive Vice President

**THE RUANE, CUNIFF & GOLDFARB INC./SEQUOIA FUND INC. ANNUAL INVESTOR DAY WILL BE HELD AT 10A.M., NEW YORK CITY TIME, ON FRIDAY, MAY 18, 2007 AT THE ST. REGIS HOTEL, TWO EAST 55TH STREET, NEW YORK, NEW YORK 10022**

## Management's Discussion of Fund Performance

The total return for Sequoia Fund was 8.34% for 2006, including the reinvestment of dividends. This compares with the 15.80% return of the S&P 500. As it has been for many years, our investment philosophy is to make concentrated commitments of capital in a limited number of companies that have superior long-term economic prospects and that sell at what we believe are attractive prices. Because Sequoia is deliberately not representative of the overall market, in any given year or years the performance of the Fund will often vary significantly from that of the broad market indices.

We are less concerned with the annual returns from each of the stocks we own than with their returns over time. We have a similar attitude towards earnings: we pay much more heed to earnings growth over a number of years rather than over a single year, much less a quarter.

The table below shows the twelve month stock total return for the Fund's major positions at the beginning of 2006:

Position	% of assets 12/31/05	Total return	% of assets 12/31/06
Berkshire Hathaway	33.8%	24.1%	27.0%
Progressive Corp.	17.4%	-16.9%	14.3%
Mohawk Industries	8.0%	-13.9%	6.8%
TJX	7.4%	24.1%	6.0%
Fastenal	4.4%	-7.4%	4.0%
Expeditors International	3.4%	20.5%	3.4%
Top six positions	74.4%		61.5%

The largest reasons for our underperformance versus the S&P 500 were the significant stock price declines at two of our largest holdings, Progressive Corp. and Mohawk Industries.

We believed that Progressive's stock price at the beginning of 2006 was justified by its historical record and long-term prospects together with its exceptional management. Although we worried that Progressive's profit margins were unsustainably high, we were confident the company would gradually reduce prices and grow policies and revenue at satisfactory levels. We did not expect that over the course of 2006 Progressive's revenue growth would decelerate to zero and policies-in-force would begin to decline. Nor did we expect margins to expand and earnings per share to grow 20%. Yet, that is what happened, although we do not believe

it was management's goal to harvest extra earnings in 2006 at the expense of the future growth rate.

For most of its history, Progressive's aim has been to earn at least a 4% operating margin and grow as fast as possible. In 2006, it earned a 14% margin. This wind-fall occurred largely because of a number of structural changes that cumulatively have significantly reduced the frequency of automobile accidents.

When Progressive tested lower rates in recent years, it found little elasticity of demand. Therefore, at the risk of holding a pricing umbrella over less efficient competitors, the company opted to preserve higher margins. Although it anticipated that such pricing would reduce growth, it did not contemplate that the growth would cease altogether.

Looking ahead, Progressive may be forced to cut rates more aggressively to attract policyholders, as more surgical price cuts have not worked. This almost certainly will lead to lower profits for shareholders.

Progressive is an outstanding company that currently faces two great challenges: 1) increasing retention or policy lives through a number of measures; and 2) improving both its brand proposition and its marketing and advertising. Fortunately, management embraces change and the company could not have a better change agent than CEO Glenn Renwick.

Mohawk Industries' stock price fell 14% in 2006. Reported earnings rose 17% for the year, reflecting earnings accretion from the purchase of Unilin, a large European-based laminate flooring manufacturer, in late 2005. Absent the acquisition of Unilin, net income would have been flattish as lower interest expense from debt pay-down would have offset a modest decline in operating profits at Mohawk's business units. The decline in operating income reflected high oil prices, which increased the cost of the raw materials used to make flooring products, and a slump in both new home construction and home remodeling, which reduced demand for residential flooring. In this difficult environment, Mohawk successfully managed operating costs and the acquisition of Unilin. It also dramatically reduced the debt taken on to make the acquisition.

We do not know how long the housing slump will last, or how long raw materials prices will remain high. We do know Mohawk has been passing on raw

materials price increases for some time, which speaks to its position in the marketplace. At the end of 2006, Mohawk sold for less than 12 times forward earnings estimates, which strikes us as an attractive price for a business that has grown its earnings at a 17% compound average annual rate the last five years.

Berkshire Hathaway enjoyed a terrific year, though it received more than a little help from Mother Nature. After two years which saw multiple hurricanes wreak havoc on the Gulf Coast, writers of “supercat” reinsurance raised premiums significantly, then saw no major storms hit the U.S. mainland in 2006. This fortuitous circumstance helped Berkshire more than double its reported earnings per share through the first nine months of the year. As a major writer of “supercat” reinsurance, there will be years when Berkshire gets lucky, like 2006, and years when it pays out billions of dollars in claims, like 2004 and 2005. A prudent forecast for 2007 would include a more normalized level of catastrophe claims, and thus a lower level of earnings in the reinsurance business.

Berkshire’s good performance was not simply a matter of good weather. GEICO is knocking the cover off the ball. The company’s fantastic advertising, together with its very aggressive entry into New Jersey, are driving very satisfactory growth. Gen Re posted its best results in many years in 2006. Netjets showed improved results. Most pleasingly, through the first three quarters of the year Berkshire invested \$14 billion in stock investments and acquisitions of private companies. The favorable economics of these investments gives us confidence that they will produce a very satisfactory return.

Based on Berkshire’s 2006 performance, our decision to reduce our ownership position during the year could be second-guessed. It remains our single largest investment but, given Mr. Buffett’s age and our level of concentration, we felt it prudent to reduce our exposure. We expect Mr. Buffett will continue to do a masterful job deploying Berkshire’s vast capital and we intend to benefit from that performance over many years.

TJX reported a fine year that highlighted the inherent strength of its off-price business model. The company saw its earnings per share, absent one-time charges, grow by more than 20%. In recent years, TJX had committed a succession of gaffes, including the failed launch of a dot com business and the rapid expansion of several unproven start-up concepts. Finally, in late 2005 the board

of directors tapped chairman of the board and founder Ben Cammarata to return as interim CEO. Cammarata achieved almost immediate results by re-focusing TJX on its core businesses, TJ Maxx, Marshall’s and Winners, the TJ Maxx of Canada. He replaced a number of senior managers and closed stores that had little potential for earning a satisfactory return. Perhaps most importantly he lured long-time executive Carol Meyrowitz, who had left the business earlier in 2005, back to the company.

Meyrowitz, a respected apparel merchant, was instrumental in the turnaround and recently was appointed CEO. She should have a stronger supporting cast of senior managers than existed 18 months ago. We trimmed TJX in 2006 after the stock rose during the year, but it remains a large position and we are encouraged by the changes made over the past five quarters.

Other major holdings such as Brown & Brown, Expeditors, Fastenal, Idexx Labs, O’Reilly, Porsche and Walgreen turned in strong earnings years, with all of them growing net income at double-digit rates. Porsche shares rose 80% in U.S. dollars. The stock price performance of the other six companies was more mixed, but their earnings performance was on target. We are optimistic about the prospects for solid earnings growth at all seven businesses in 2007 and beyond.

We are pleased to report that we made a number of new investments in high-quality businesses in 2006. Our largest new investment was Bed, Bath & Beyond. This unusual company — management rarely speaks to Wall Street, does not belong to any industry trade groups and otherwise keeps its own counsel — was founded in the early 1970s and today is a very successful purveyor of kitchen, bath and home décor items. It is distinguished from its competitors by its breadth of product offering and superior financial returns. The company has a terrific balance sheet with an enormous amount of cash on hand and no debt.

Other new investments by the Fund in 2006 included Target, Lowe’s, Knight Transportation, MasterCard and Apollo Group. During the year, the Fund sold its holdings in Gtech and IGT.

At the end of the year, Sequoia was 94.3% invested in stocks, compared to 95.2% a year earlier. In both years, the remainder of the Fund’s assets was held in cash and cash equivalents.

## Shareholder Expense Example

As a shareholder of the Fund, you incur ongoing costs, including management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period (July 1, 2006 to December 31, 2006).

### Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and will not help you determine the relative total costs of owning different funds.

	Beginning Account Value <u>July 1, 2006</u>	Ending Account Value <u>December 31, 2006</u>	Expenses Paid During Period* July 1, 2006 to <u>December 31,</u> <u>2006</u>
Actual	\$1,000	\$1,075.05	\$5.23
Hypothetical (5% return per year before expenses)	\$1,000	\$1,020.16	\$5.09

*\* Expenses are equal to the Fund’s annualized expense ratio of 1.00%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

**SEQUOIA FUND, INC.**  
**Schedule of Investments**  
**December 31, 2006**

**COMMON STOCKS (94.30%)**

<u>Shares</u>		<u>Value (a)</u>
	<b>AUTO PARTS (1.52%)</b>	
1,699,697	O'Reilly Automotive Inc. * . . . . .	\$ 54,492,286
	<b>AUTOMOTIVE MANUFACTURING (3.36%)</b>	
95,028	Porsche AG (Germany) (a) . . . . .	120,919,614
	<b>CASUALTY INSURANCE (14.32%)</b>	
21,236,852	Progressive Corporation. . . . .	514,356,556
	<b>DIVERSIFIED COMPANIES (27.08%)</b>	
8,844	Berkshire Hathaway Inc. Class A* . . . . .	972,751,560
101	Berkshire Hathaway Inc. Class B* . . . . .	370,266
		<u>973,121,826</u>
	<b>EDUCATION (0.79%)</b>	
730,356	Apollo Group, Inc. * . . . . .	28,461,973
	<b>FINANCE (1.03%)</b>	
376,378	MasterCard Inc. . . . .	37,069,469
	<b>FREIGHT TRANSPORTATION (5.28%)</b>	
2,997,624	Expeditors International Inc. . . . .	121,403,772
4,000,000	Knight Transportation Inc. . . . .	68,200,000
		<u>189,603,772</u>
	<b>INDUSTRIAL &amp; CONSTRUCTION SUPPLIES (4.05%)</b>	
4,053,623	Fastenal Company . . . . .	145,443,993
	<b>INSURANCE BROKERS (2.27%)</b>	
2,888,441	Brown & Brown Inc. . . . .	81,482,921
	<b>MEDICAL EQUIPMENT (0.12%)</b>	
120,075	Patterson Companies Inc. * . . . .	4,263,863
	<b>PROCESS CONTROL INSTRUMENTS (0.77%)</b>	
384,088	Danaher Corporation. . . . .	27,823,335

<u>Shares</u>		<u>Value (a)</u>
	<b>RETAILING (23.52%)</b>	
4,999,694	Bed Bath & Beyond Inc. *	\$ 190,488,342
39,797	Costco Wholesale Corporation	2,104,067
1,840,388	Lowe's Companies, Inc.	57,328,086
2,212,730	Target Corporation	126,236,247
1,145,572	Tiffany & Company	44,952,245
7,629,153	TJX Companies, Inc.	217,583,444
2,119,715	Walgreen Company	97,273,721
2,359,006	Wal-Mart Stores, Inc.	108,938,897
		<u>844,905,049</u>
	<b>TEXTILE – CARPETS (6.82%)</b>	
3,273,926	Mohawk Industries Inc. *	<u>245,086,100</u>
	<b>VETERINARY DIAGNOSTICS (3.37%)</b>	
1,528,744	Idexx Laboratories Inc. *	<u>121,229,399</u>
	TOTAL COMMON STOCKS (COST \$1,371,494,565)	<u>\$3,388,260,156</u>
<b>Principal Amount</b>		
	<b>U.S. GOVERNMENT OBLIGATIONS (5.70%)</b>	
\$206,000,000	U.S. Treasury Bills due 2/8/2007 through 2/22/2007	<u>204,763,836</u>
	TOTAL U.S. GOVERNMENT OBLIGATIONS	
	(Cost \$204,763,836)	<u>204,763,836</u>
	TOTAL INVESTMENTS (100%)+†	
	(Cost \$1,576,258,401)	<u>\$3,593,023,992</u>

†† The cost for federal income tax purposes is identical.

\* Non-income producing.

(a) The Fund is invested in preference shares of Porsche AG which possess the same economic interest as Porsche common stock but have no voting rights.

The accompanying notes are an integral part of these Financial Statements.

**SEQUOIA FUND, INC.**  
**Statement of Assets and Liabilities**  
**December 31, 2006**

**ASSETS:**

Investments in securities, at value (cost \$1,576,258,401) (Note 1) . . . . .	\$3,593,023,992
Cash on deposit with custodian . . . . .	1,104,963
Receivable for capital stock sold . . . . .	569,006
Dividends receivable . . . . .	703,206
Receivable for investment securities sold unsettled . . . . .	8,257,925
Other assets . . . . .	<u>34,005</u>
Total assets . . . . .	<u>3,603,693,097</u>

**LIABILITIES:**

Payable for capital stock repurchased . . . . .	866,658
Accrued investment advisory fee . . . . .	2,811,935
Accrued other expenses . . . . .	<u>204,476</u>
Total liabilities . . . . .	<u>3,883,069</u>
Net assets applicable to 23,567,382 shares of capital stock outstanding (Note 4) . . . . .	<u>\$3,599,810,028</u>
Net asset value, offering price and redemption price per share . . . . .	<u>\$152.75</u>

The accompanying notes are an integral part of these Financial Statements.

**SEQUOIA FUND, INC.**  
**Statement of Operations**  
**Year Ended December 31, 2006**

**INVESTMENT INCOME:**

Income:	
Dividends, net of \$121,180 of foreign tax withheld . . . . .	\$ 11,007,934
Interest . . . . .	8,160,288
Other income . . . . .	36,846
	<hr/>
Total income . . . . .	19,205,068
Expenses:	
Investment advisory fee (Note 2) . . . . .	35,499,566
Legal and auditing fees . . . . .	213,402
Stockholder servicing agent fees . . . . .	502,420
Custodian fees . . . . .	80,000
Directors fees and expenses (Note 6) . . . . .	242,010
Other . . . . .	214,869
	<hr/>
Total expenses . . . . .	36,752,267
Less expenses reimbursed by Investment Adviser (Note 2) . . . . .	1,102,000
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Net expenses . . . . .	35,650,267
	<hr/>
Net investment (loss) . . . . .	(16,445,199)

**REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS:**

Realized gain on investments:	
Unaffiliated companies . . . . .	541,624,961
Foreign currency transactions . . . . .	(5,174)
	<hr/>
Net realized gain on investments and foreign currencies . . . . .	541,619,787
Net (decrease) in unrealized appreciation on investments . . . . .	(239,222,412)
	<hr/>
Net realized and unrealized gain on investments and foreign currencies . . . . .	302,397,375
	<hr/>
Increase in net assets from operations . . . . .	\$ 285,952,176

The accompanying notes are an integral part of these Financial Statements.

**SEQUOIA FUND, INC.**  
**Statements of Changes in Net Assets**

	Year Ended December 31,	
	2006	2005
<b>INCREASE (DECREASE) IN NET ASSETS:</b>		
From operations:		
Net investment (loss) . . . . .	\$ (16,445,199)	\$ (17,228,982)
Net realized gain on investments and foreign currencies . . . . .	541,619,787	378,898,763
Net increase / (decrease) in unrealized appreciation . . . . .	(239,222,412)	(89,974,201)
Net increase / (decrease) in net assets from operations . . . . .	285,952,176	271,695,580
Distributions to shareholders from:		
Net investment income . . . . .	—	—
Net realized gains . . . . .	(340,945,549)	(245,091,727)
Capital share transactions (Note 4) . . . . .	81,492,062	(225,675,415)
Total increase / (decrease) . . . . .	26,498,689	(199,071,562)
<b>NET ASSETS:</b>		
Beginning of year . . . . .	3,573,311,339	3,772,382,901
End of year . . . . .	\$3,599,810,028	\$3,573,311,339
<b>NET ASSETS CONSIST OF:</b>		
Capital (par value and paid in surplus) . . . . .	\$1,456,986,196	\$1,316,344,778
Undistributed net realized gains (Note 5) . . . . .	126,058,241	978,558
Unrealized appreciation . . . . .	2,016,765,591	2,255,988,003
Total Net Assets . . . . .	\$3,599,810,028	\$3,573,311,339

The accompanying notes are an integral part of these Financial Statements.

## SEQUOIA FUND, INC.

### Notes to Financial Statements

#### NOTE 1—SIGNIFICANT ACCOUNTING POLICIES:

Sequoia Fund, Inc. (the “Fund”) is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management investment company. The investment objective of the Fund is growth of capital from investments primarily in common stocks and securities convertible into or exchangeable for common stock. The following is a summary of significant accounting policies, consistently followed by the Fund in the preparation of its financial statements.

- A. *Valuation of investments:* Investments are carried at market value or at fair value as determined by the Board of Directors. Securities traded on a national securities exchange or on a foreign exchange are valued at the last reported sales price on the principal exchange on which the security is listed on the last business day of the period; securities traded in the over-the-counter market are valued in accordance with NASDAQ Official Closing Price on the last business day of the period; listed securities and securities traded in the over-the-counter market for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices; U.S. Treasury Bills with remaining maturities of 60 days or less are valued at their amortized cost. U.S. Treasury Bills that when purchased have a remaining maturity in excess of sixty days are stated at their discounted value based upon the mean between the bid and asked discount rates until the sixtieth day prior to maturity, at which point they are valued at amortized cost.

*Foreign currencies:* Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of foreign portfolio securities are translated into U.S. dollars at the rates of exchange prevailing when such securities are acquired or sold. Income and expenses are translated into U.S. dollars at the rates of exchange prevailing when accrued. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from the sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund’s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

- B. *Accounting for investments:* Investment transactions are accounted for on the trade date and dividend income is recorded on the ex-dividend date. Interest income is accrued as earned. Premiums and discounts on fixed income securities are amortized over the life of the respective security. The net realized gain or loss on security transactions is determined for accounting and tax purposes on the specific identification basis.
- C. *Federal income taxes:* It is the Fund’s policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its stockholders. Therefore, no federal income tax provision is required.
- D. *Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.
- E. *General:* Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

## NOTE 2—INVESTMENT ADVISORY CONTRACTS AND PAYMENTS TO INTERESTED PERSONS:

The Fund retains Ruane, Cunniff & Goldfarb Inc. as its investment adviser. Ruane, Cunniff & Goldfarb Inc. (the “Investment Adviser”) provides the Fund with investment advice, administrative services and facilities.

Under the terms of the Advisory Agreement, the Investment Adviser receives a management fee equal to 1% per annum of the Fund’s average daily net asset values. This percentage will not increase or decrease in relation to increases or decreases in the net asset value of the Fund. Under the Advisory Agreement, the Investment Adviser is obligated to reimburse the Fund for the amount, if any, by which the operating expenses of the Fund (including the investment advisory fee) in any year exceed the sum of 1-1/2% of the average daily net asset values of the Fund during such year up to a maximum of \$30,000,000, plus 1% of the average daily net asset values in excess of \$30,000,000. The expenses incurred by the Fund exceeded the percentage limitation during the year ended December 31, 2006 and the Investment Adviser reimbursed the Fund \$1,102,000. Such reimbursement is not subject to recoupment by the Investment Adviser.

For the year ended December 31, 2006, there were no amounts accrued or paid to interested persons, including officers and directors, other than advisory fees of \$35,499,566 to Ruane, Cunniff & Goldfarb Inc. and brokerage commissions of \$974,717 to Ruane, Cunniff & Goldfarb LLC., the Fund’s distributor. Certain officers of the Fund are also officers of the Investment Adviser and the Fund’s distributor. Ruane, Cunniff & Goldfarb LLC received no compensation from the Fund on the sale of the Fund’s capital shares during the year ended December 31, 2006.

## NOTE 3—PORTFOLIO TRANSACTIONS:

The aggregate cost of purchases and the proceeds from the sales of securities, excluding U.S. government obligations, for the year ended December 31, 2006 were \$460,370,370 and \$775,697,004, respectively. Included in proceeds of sales is \$83,884,949 representing the value of securities distributed as in-kind payment of redemptions, resulting in realized gains of \$73,394,058.

At December 31, 2006 the aggregate gross unrealized appreciation and depreciation of securities for federal income tax purposes were \$2,029,724,548 and \$12,958,957, respectively.

## NOTE 4— CAPITAL STOCK:

At December 31, 2005 there were 100,000,000 shares of \$.10 par value capital stock authorized. Transactions in capital stock were as follows:

	2006		2005	
	Shares	Amount	Shares	Amount
Shares sold . . . . .	561,045	\$ 88,910,655	676,222	\$ 103,672,116
Shares issued to stockholders on reinvestment of:				
Net investment income . . . . .	—	—	—	—
Net realized gain on investments . . . . .	1,776,306	270,251,108	1,281,840	198,753,650
	<u>2,337,351</u>	<u>359,161,763</u>	<u>1,958,062</u>	<u>302,425,766</u>
Shares repurchased . . . . .	1,756,309	277,669,701	3,424,141	528,101,181
Net increase / (decrease) . . . . .	<u>581,042</u>	<u>\$ 81,492,062</u>	<u>(1,466,079)</u>	<u>\$(225,675,415)</u>

## NOTE 5—DISTRIBUTIONS TO SHAREHOLDERS:

Distributions to shareholders are determined in accordance with federal tax regulations and may differ from those determined for financial statement purposes. To the extent these differences are permanent such amounts are reclassified within the capital accounts based on federal tax regulations. During the year ended December 31, 2006 permanent differences primarily due to a net investment loss not deductible for tax purposes and realized gains on redemptions in kind not recognized for tax purposes resulted in a net decrease in net accumulated investment loss of \$16,445,199 and undistributed net realized gains of \$75,594,555 with a corresponding increase in paid in surplus of \$59,149,356. These reclassifications had no effect on net assets.

The tax character of distributions paid during 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Distributions paid from:		
Ordinary income. . . . .	\$ —	\$ —
Long-term capital gains. . . . .	340,945,549	245,091,727
Total distributions. . . . .	<u>\$340,945,549</u>	<u>\$245,091,727</u>

As of December 31, 2006, the components of distributable earnings on a tax basis were as follows:

Undistributed long-term gain. . . . .	\$ 126,058,241
Unrealized appreciation . . . . .	<u>2,016,765,591</u>
	<u>\$2,142,823,832</u>

## NOTE 6—DIRECTORS FEES AND EXPENSES:

Directors who are not deemed “interested persons” receive fees of \$6,000 per quarter and \$2,500 for each meeting attended, and are reimbursed for travel and other out-of-pocket disbursements incurred in connection with attending directors meetings. The total of such fees and expenses paid by the Fund to these directors for the year ended December 31, 2006 was \$242,010.

## NOTE 7—NEW ACCOUNTING PRONOUNCEMENTS:

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109” (the “Interpretation”). The Interpretation establishes a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of effectiveness. Management has not yet determined the implication of the Interpretation to the Fund and its impact on the Fund’s financial statements.

In addition, in September 2006, Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Management has not yet determined the impact the adoption of SFAS 157 will have on the Fund’s financial statement disclosures.

**NOTE 8—FINANCIAL HIGHLIGHTS:**

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Per Share Operating Performance (for a share outstanding throughout each year)					
Net asset value, beginning of year . . . . .	\$ 155.45	\$ 154.27	\$ 147.61	\$ 126.63	\$ 130.24
Income from investment operations:					
Net investment (loss) / income . . . . .	(0.70)	(0.75)	(0.58)	(0.62)	(0.41)
Net realized and unrealized gains (losses) on investments . . . . .	13.60	12.57	7.45	22.21	(3.03)
Total from investment operations. . . . .	12.90	11.82	6.87	21.59	(3.44)
Less distributions:					
Dividends from net investment income. . . . .	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Distributions from net realized gains . . . . .	(15.60)	(10.64)	(0.21)	(0.61)	(0.16)
Total distributions . . . . .	(15.60)	(10.64)	(0.21)	(0.61)	(0.17)
Net asset value, end of year . . . . .	<u>\$ 152.75</u>	<u>\$ 155.45</u>	<u>\$ 154.27</u>	<u>\$ 147.61</u>	<u>\$ 126.63</u>
Total Return . . . . .	8.34%	7.78%	4.66%	17.12%	-2.64%
Ratios/Supplemental data					
Net assets, end of year (in millions) . . . . .	\$3,599.8	\$3,573.3	\$3,772.4	\$3,973.6	\$3,905.1
Ratio to average net assets:					
Expenses. . . . .	1.0%	1.0%	1.0%	1.0%	1.0%
Net investment income (loss) . . . . .	-0.5%	-0.5%	-0.4%	-0.5%	-0.3%
Portfolio turnover rate. . . . .	14%	8%	6%	3%	8%

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Sequoia Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Sequoia Fund, Inc. (the "Fund") at December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York  
February 21, 2007

## Information about Sequoia Fund Officers and Directors:

The SAI includes additional information about Fund directors and is available, without charge, upon request. You may call toll-free 1-800-686-6884 to request the SAI.

<u>Name, Age, and Address</u>	<u>Position Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation during Past 5 Years</u>	<u>Other Directorships Held by Director</u>
Richard T. Cunniff, 83 767 Fifth Avenue New York, NY 10153	Vice Chairman & Director	Term — 1 Year & Length of Time served — 36 Years	Vice Chairman & Director of Ruane, Cunniff & Goldfarb Inc.	Sturm, Ruger & Company, Inc.
Robert D. Goldfarb, 62 767 Fifth Avenue New York, NY 10153	President & Director	Term — 1 Year & Length of Time served — 28 Years	Chairman & Director of Ruane, Cunniff & Goldfarb Inc.	None
David M. Poppe, 41 767 Fifth Avenue New York, NY 10153	Executive Vice President & Director	Term — 1 Year & Length of Time served — 3 Years	President & Director of Ruane, Cunniff & Goldfarb Inc.	None
Joseph Quinones, Jr., 61 767 Fifth Avenue New York, NY 10153	Vice President, Secretary, Treasurer & Chief Compliance Officer	Term — 1 Year & Length of Time served — 11 Years	Vice President, Secretary, Treasurer & Chief Compliance Officer of Ruane, Cunniff & Goldfarb Inc.	None
Francis P. Matthews, 84 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 34 Years	Retired	None
C. William Neuhauser, 80 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 32 Years	Retired	None
Robert L. Swiggett, 84 767 Fifth Avenue New York, NY 10153	Director — Chairman of the Board	Term — 1 Year & Length of Time served — 36 Years	Retired	None
Sharon Osberg, 57 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 3 Years	Consultant Internet Mobile Technology	None
Roger Lowenstein, 52 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 8 Years	Writer major Financial and News Publications	None
Vinod Ahooja, 55 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 6 Years	Retired	None

## Approval of Advisory Contract

At a meeting held on December 11, 2006, the Board of Directors of Sequoia Fund, Inc. (the "Fund"), including a majority of the independent directors, evaluated and approved the renewal of the advisory contract between the Fund and Ruane, Cunniff & Goldfarb Inc. (the "Investment Adviser"). In approving the renewal of the advisory contract, the directors considered all information they deemed reasonably necessary to evaluate the terms of the contract.

### NATURE AND QUALITY OF SERVICES.

The directors reviewed the nature, extent and quality of the services provided by the Investment Adviser to the Fund. They considered the personnel responsible for the day-to-day management of the Fund, the Investment Adviser's planned staffing levels and the Investment Adviser's research capability and overall reputation. The directors considered the Investment Adviser's representation that it had no current plans to change the manner in which it managed the Fund, and the Investment Adviser's assurance that it would continue to have the expertise and resources necessary to provide the advisory and administrative services required by the Fund. They considered information concerning the Investment Adviser's compliance policies and procedures, which are designed, among other things, to ensure the Fund's compliance with its investment objective, policies and restrictions and those regulatory requirements applicable to the Fund and to address the Investment Adviser's conflicts of interest in providing services to the Fund and its other advisory clients. Based on these factors, the directors concluded that they were satisfied with the nature, extent and quality of services provided to the Fund by the Investment Adviser under the advisory contract.

### INVESTMENT PERFORMANCE.

The directors reviewed the Fund's performance under the Investment Adviser's management. They considered the Fund's performance and the performance of the S&P 500 Index for the first 10 months of 2006 and for the 1-year, 3-year, 5-year and 10-year periods ended December 31, 2005. They noted that since the Fund's inception through the year ended December 31, 2005, the Fund generated a compound annual rate of return (net of fees) of 15.88% versus a return for the S&P 500 Index of 11.73%. They also considered the Investment Adviser's statement that it makes no effort on behalf of the Fund to reflect the composition of the S&P 500 Index in the Fund's investments.

The directors reviewed specific securities that contributed positively and negatively to the Fund's performance. The directors considered the Fund's performance in light of reports provided periodically by the Investment Adviser. They also considered the Fund's long-term and short-term (e.g., the last three years) performance and such performance in light of the Fund's compliance with its investment policies and legal and regulatory requirements. The directors concluded that the Fund's performance was not such as to prevent them from approving the renewal of the contract.

### FEES.

Next, the directors examined the fees paid to the Investment Adviser under the advisory contract and the Fund's overall expense ratio. They considered the advisory fee compared to the fees charged by other similarly situated mutual funds (i.e., mutual funds

in Morningstar's Large Cap Blend Category). They noted that the Fund's expense ratio of 1.0% compared favorably with the average expense ratio of the mutual funds included in Morningstar's Large Cap Blend Category of 1.17%. They considered the Investment Adviser's obligation under the contract to reimburse the Fund for the excess, if any, in any year of the Fund's operating expenses over 1 1/2% of the Fund's average daily net asset values up to a maximum of \$30 million, plus 1% of the Fund's average daily net asset values in excess of \$30 million and that the Fund was closed to new investors. The directors did not compare the fees charged to the Fund by the Investment Adviser with the fees charged by the Investment Adviser to its other advisory accounts because the services provided by the Investment Adviser to its other advisory accounts are materially different from the services provided by the Investment Adviser to the Fund. Based on these factors, the directors determined that the fees charged to the Fund by the Investment Adviser under the advisory contract were reasonable in light of the services provided by the Investment Adviser and the fees charged by other advisers to similar funds offering similar services.

#### PROFITABILITY AND OTHER BENEFITS TO THE INVESTMENT ADVISER.

The directors considered the income and expenses of the Fund and the profitability of the Fund to the Investment Adviser. They reviewed a written analysis of the profitability of the Fund to the Investment Adviser for the ten months ended October 31, 2006. They also considered other benefits to the Investment Adviser and its affiliates as a result of their relationship with the Fund, including a written analysis of the amounts and rates of brokerage commissions paid by the Fund to Ruane, Cunniff & Goldfarb LLC, a broker-dealer affiliate of the Investment Adviser, during those months. Based on these factors, the directors concluded that the Investment Adviser's profitability was not such as to prevent them from approving the renewal of the contract.

#### ECONOMIES OF SCALE.

The directors considered information concerning economies of scale and whether the existing fees might require adjustment in light of any economies of scale. The directors determined that no modification of the existing fee level was necessary in light of the fact that the Fund is closed to new investors and that the Fund's total annual expense ratio was less than the average expense ratio of its peer mutual funds (i.e., mutual funds in Morningstar's Large Cap Blend Category). In evaluating the aforementioned considerations, the directors did not identify any single factor as all-important or controlling in their evaluation of the contract. In light of the Fund's performance, the Investment Adviser's provision of advisory and other services, and the reasonableness of the Fund's overall expenses compared to the expenses of its peers, the directors concluded that the terms of the advisory contract were reasonable and fair and that the Investment Adviser's fees were reasonable in light of the services provided to the Fund and the benefits received by the Investment Adviser from its overall relationship with the Fund. Based upon such conclusions, the directors, including a majority of the independent directors, approved the renewal of the advisory contract.

## Other information

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Form N-Q is available on the SEC's web site at <http://www.sec.gov>. The Fund's Form N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. For information regarding the operation of the SEC's Public Reference Room, call 1-800-SEC-0330. For a complete list of the Fund's portfolio holdings, view the most recent quarterly, semiannual or annual report on Sequoia Fund's web site at [http://www.sequoiafund.com/fund\\_reports.htm](http://www.sequoiafund.com/fund_reports.htm).

You may obtain a description of the Fund's proxy voting policies and procedures, and information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, without charge. Visit Sequoia Fund's web site at [www.sequoiafund.com](http://www.sequoiafund.com) and use the "Shareholder Information" link to obtain all proxy information. This information may also be obtained from the Securities and Exchange Commission's web site at [www.sec.gov](http://www.sec.gov).

**SEQUOIA FUND, INC.**  
**767 Fifth Avenue, Suite 4701**  
**New York, New York 10153-4798**  
**Website: [www.sequoiafund.com](http://www.sequoiafund.com)**

**DIRECTORS**

Richard T. Cunniff  
Robert D. Goldfarb  
David M. Poppe  
Vinod Ahooja  
Roger Lowenstein  
Francis P. Matthews  
C. William Neuhauser  
Sharon Osberg  
Robert L. Swiggett, Chairman of the Board

**OFFICERS**

Richard T. Cunniff	— <i>Vice Chairman</i>
Robert D. Goldfarb	— <i>President</i>
David M. Poppe	— <i>Executive Vice President</i>
Joseph Quinones, Jr.	— <i>Vice President, Secretary, Treasurer &amp; Chief Compliance Officer</i>

**INVESTMENT ADVISER**

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767 Fifth Avenue, Suite 4701  
New York, New York 10153-4798

**DISTRIBUTOR**

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**LEGAL COUNSEL**

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