INVESTING for GROWTH

Covance 2006 Annual Report

CHAIRMAN'S LETTER

To our shareholders: 2006 was an exciting year both for the drug development services industry and for Covance, as biotech and pharmaceutical companies turned increasingly to outsourced partners for their new-product development needs.

Still, of the $60 billion these companies spend annually on drug development, only $15 billion is currently outsourced. It is estimated that this $15 billion will double in the coming years as pressure intensifies to increase the productivity of the cost-intensive drug development process.

In this favorable market environment, we believe that Covance's record new orders of $1.84 billion in 2006 and the 33% increase in our backlog, to $2.23 billion, bode well for our continued growth. We leveraged these favorable market dynamics to deliver a sixth consecutive year of earnings growth of at least 25%.

In 2006, we also continued to advance the implementation of our operational and service excellence strategy—a strategy that guides all of our decisions. We believe that our strategic focus on outstanding service quality, along with our diverse portfolio of preclinical, clinical development, and commercialization service offerings, makes us a compelling choice as a strategic partner for our clients. To support this strategy, we made significant new investments both in our infrastructure and in our people. These investments support future growth and are critical to continuously improving our ability to win repeat work from highly satisfied clients and open the door to even more strategic relationships.

We believe we are exceptionally well-positioned to capitalize on the dynamic growth of the drug development services industry.

— THE YEAR IN PERSPECTIVE —

We grew net revenue 12.3%, to a record $1.34 billion, while pro forma* net income rose 27.1% over pro forma 2005, to a record $143 million. Operating margin—a broad measure of our process efficiencies and economies of scale—expanded to 14.4%, an increase of 120 basis points over pro forma 2005, while pro forma earnings per share grew 25.1%. Our very strong net orders of $1.84 billion led backlog to grow to a record level of $2.23 billion at year-end. Covance has never been more financially and operationally strong, and with current positive industry trends, we believe we are poised for another solid year in 2007.

***Note: Pro forma results reflect adjustments to exclude tax gains (charges) in 2006 and 2005 and include stock-based compensation expense under SFAS 123 in 2005. Refer to the Financial Information table on the inside back cover for a reconciliation of the "as reported" to the pro forma results.**

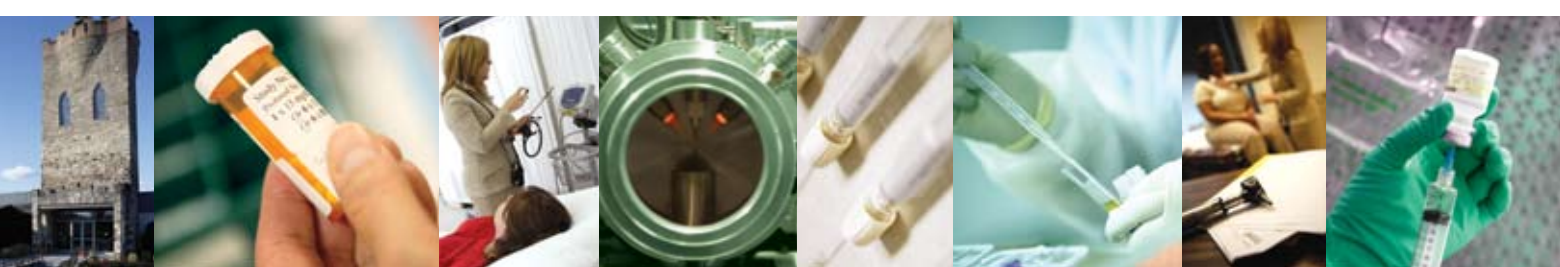
— INVESTING IN OUR FUTURE —

To sustain our growth in 2006 and beyond, we invested significantly in new and existing facilities around the world, including several key acquisitions. We also continued enhancing our infrastructure with state-of-the-art automation and information technology (IT) systems across our company.

Over the past five years we have invested more than $200 million in Early Development facilities that have enabled us to stay ahead of changing technology and regulations, and to demonstrate to clients that we are more than overflow-capacity providers: we are critical strategic partners. In 2006, we opened our $30 million Harrogate, United Kingdom, expansion. We also increased the square footage of our Münster, Germany, toxicology facility by 30%; completed an expansion of more than 200,000 square feet in Madison, Wisconsin; and expanded our clinical development capabilities with new offices in Moscow, Russia; Sofia, Bulgaria; and Bucharest, Romania.

We continued to invest in our central laboratory global infrastructure to support the growing number of large, complex clinical trials run across multiple continents. A dedicated, 13,000-square-foot central lab in Shanghai, China, scheduled to open in late 2007, will further strengthen our laboratory testing capabilities in the Asia-Pacific region. The new Shanghai lab will be the fifth dedicated laboratory in our global network, all of which use identical technical platforms, methods, and procedures to ensure a consistent level of quality regardless of location. We also announced the expansion of kit production facilities in Sydney, Australia, and a quadrupling of laboratory testing facilities in Singapore, including expanded, quantitative PCR testing.

We aligned our periapproval and market access services to enhance delivery of integrated service solutions in the post-approval market space. We also completed a $13 million IT investment in our InTeleCenter, which resulted in sweeping enhancements in our automation, database applications, and overall response capabilities. The new alignment and IT investment position us to help biopharmaceutical clients gain greater insight into the safety, efficacy, and value of their products in actual clinical



practice, while facilitating patient access to medications their physicians prescribe.

We acquired eight early-phase clinical pharmacology sites from Radiant Research, Inc., which helped us expand our early-phase clinical footprint. This investment is significant, because Phase I and II currently represent the fastest-growing area of the drug development process; thus we have further opportunity to create integrated service solutions for our clients. We are already seeing dividends from this acquisition. In the fourth quarter, we secured our largest clinical pharmacology contract. This top pharmaceutical client cited the Radiant acquisition as the deciding factor in choosing Covance, as it enabled them to place all their studies with one company possessing comprehensive capabilities. The Radiant Research acquisition also provided us with access to specialized, hard-to-recruit patients and to high-demand areas such as osteoarthritis, rheumatoid arthritis, diabetes, postmenopause, and healthy elderly, and increased our capacity to more than 550 beds globally. The Radiant clinic in Honolulu, Hawaii, expanded our capabilities to conduct Japanese bridging studies.

Signet Laboratories, in Dedham, Massachusetts, was another important acquisition. Signet is a leading provider of monoclonal antibodies used in research in cancer, infectious and neurodegenerative diseases.

With total capital investments exceeding $135 million in 2006 alone, coupled with key acquisitions, we are clearly laying the foundation for greater growth and success.

— CAPITALIZING ON A RISING TIDE —

Today, of the $15 billion biopharmaceutical outsourcing market, Covance has approximately a 9% share, which makes us the world's largest drug development services company. We are confident that the trend toward greater outsourcing should lead the contract research organization (CRO) industry to grow substantially in the coming years. Our expectations are based on several key industry dynamics.

First, although most development work is done in-house in the pharmaceutical industry, economic pressures are driving our clients to increase outsourcing. Pharmaceutical companies are finding not only that outsourcing of drug development to CROs is cost-effective, but also that it often produces faster results and allows them to focus on their core competencies. Clients are finding it harder to justify continued fixed-cost investments in testing facilities in the face of changing therapeutic focus and volatile demands on internal capacity.

Second, though biotechnology companies continue to be well-funded, they have limited development infrastructures, which lead them to outsource significant portions of their drug development projects. Moreover, the continued success and innovation from the biotech industry has created an explosion of new compounds in the drug development pipeline. In fact, approximately 50% of molecules in development come from biotechnology companies.

Third, we believe that large, global service providers like Covance are taking share from the hundreds of smaller niche providers who lack geographic reach and regional global regulatory expertise. By increasing scale and geographic coverage in high-growth areas, such as Latin America, Central and Eastern Europe, and Asia-Pacific, global CROs like Covance are becoming more attractive to clients who are finding it increasingly difficult to justify making such investments on their own.

Today, large CROs are becoming more integrated into the development strategy of major pharmaceutical companies and functioning as development partners for many biotechnology companies. With increasing frequency, Covance is being awarded full development programs, which allow us to integrate our services, run complex projects in parallel, and speed delivery of critical test results. We are also demonstrating to our largest biopharmaceutical clients how long-term, dedicated outsourcing partnerships—in which clients rely on our expertise, experience, and global reach—create superior value over tactical, project-by-project contracts. So far, we have signed large dedicated-capacity agreements with five of the world's largest biotech and pharmaceutical companies, and we expect more such contracts in 2007.

— EXCELLING THROUGH "PEOPLE, PROCESS, AND CLIENTS" —

Five years ago, Covance initiated a strategy for driving sustainable growth and delighting clients—concentration on *People, Process,* and *Clients* to achieve operational and service excellence on a global scale. This strategy continues to deliver impressive results.

The *People* strategy—including whom we hire and how we retain and develop talent—is crucial to our success. We welcomed more than 800 new employees into the Covance family this year and promoted approximately 1,400 colleagues internally. We provided our employees with new tools to help them acquire and develop the talent we need to meet both our own goals and those of our clients. We intensified our focus on career development, as well as on diversity, inclusion, and multiculturalism, across the global organization. At Covance, we firmly believe that our overall success depends on the success of each of our employees and an environment that fosters teamwork on a global scale. We are committed to a culture that nurtures individual

growth through lifelong learning programs, stimulating job assignments, and formal networking and mentoring activities so that our people can continually upgrade their skills and advance their careers.

Ongoing *Process* improvements helped us achieve almost twice our targeted productivity gains in 2006. Six Sigma benefits in Early Development continue to grow as we find exciting new opportunities to utilize this methodology. We expanded Six Sigma in our Late-Stage Development segment, where we completed nearly 20 projects and achieved over $1.5 million in gross savings. More important, our clients have increasingly recognized the value of these projects across the company in helping reduce variability, increase quality, and expedite the delivery of project data. Two key productivity indicators—revenue per employee and operating margin per employee—increased in 2006, even as we added 800 full-time employees to our ranks. These gains in productivity make us more competitive and position us better for long-term success.

Perhaps nothing at Covance is more important to our future than providing our *Clients* with consistently outstanding service quality. Our Signature Client Service platform, now the cornerstone of our employee culture, is having a dramatic impact on how we deliver service to our clients. In 2006, we established a standardized pan-Covance measurement tool that provides us with client satisfaction feedback.

Thanks to our focus on client satisfaction and retention, we are executing more and more strategic agreements with our clients. In early 2006, we were awarded the largest contract in our history, a seven-year dedicated capacity toxicology agreement worth a minimum of $187 million. We were also awarded a significant extension and expansion of another dedicated-space toxicology agreement, with a total contract value of $44 million. Because of their satisfaction with our program management service, this client plans to place an additional four or five full IND-enabling development packages with Covance in 2007. In January 2007, we secured yet another dedicated-capacity contract with a minimum value of $55 million, the first to span multiple continents and allows our top 10 pharmaceutical client to standardize its global toxicology organization and study processes. Continued success with this strategic, partnership-based outsourcing opens the door to substantial future growth for Covance.

— AN EXCITING FUTURE —

Looking ahead, we believe that Covance is uniquely positioned to meet the needs of clients as a partner in strategic drug development. We are highly focused on the huge opportunity to convert, to outsourced capacity, increasing portions of the 75% of drug development work still being done inside our large pharmaceutical clients. In doing so, we can capitalize on the industry's strong market dynamics, generate consistently strong revenue and earnings growth, and deliver a strong cash flow for the foreseeable future. Yet we will never take our success for granted. We have to earn it—client by client and project by project—every single day, and we will continue to do so in 2007 and beyond.

For our terrific 2006 performance, I want to thank our 8,100 talented and dedicated employees, who worked diligently to delight our clients and deliver another year of strong financial results. I also want to thank our clients old and new, who consistently selected us as their CRO of choice, and our shareholders, who continued to favor us with their investments.

We look forward to your ongoing support and to sharing this dynamic growth phase of our journey with you. It is truly an exciting time to be at Covance.

Sincerely,

Joe Herring
Chairman of the Board
and Chief Executive Officer







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standing John Watson, Donald Kraft, Richard Cimino, James Lovett, Joseph Herring, Mary Westrick, Wendel Barr, Nigel Brown, John Repko
seated Luis Gutierrez, Deborah Tanner, Anthony Cork, Thomas Kasser, William Klitgaard

COVANCE AT A GLANCE

JANUARY 1997
Covance begins operations as an independent, public company.

NOVEMBER 1998
Acquires the Berkeley Antibody Company.

JUNE 2000
Central laboratory opens in Singapore to serve fast-growing East Asian market.

1997 1998 1999 2000 2001

NOVEMBER 1998
Acquires GDXI, now Cardiac Safety Services.

JANUARY AND FEBRUARY 2000
Expands pharmaceutical analysis facility in Harrogate, U.K. and Phase I clinical research unit in Leeds, U.K.

JULY 2001
Clinical development opens its first office in Eastern Europe in Poland.

FINANCIAL HIGHLIGHTS

FINANCIAL INFORMATION

INCOME STATEMENT DATA (DOLLARS IN MILLIONS, EXCEPT EARNINGS PER SHARE AMOUNTS)	2006[1]	2005[2] AS REPORTED	2005 SFAS 123 EXPENSE	2005[3] PRO FORMA	GROWTH
Net Revenues					
Early Development	$ **632.8**	$ 562.2			**12.6%**
Late-Stage Development	$ **707.4**	$ 630.8			**12.2%**
Total Net Revenues	$ **1,340.2**	$ 1,193.0			**12.3%**
Income from Operations	$ **193.2**	$ 175.1	$ (17.4)	$ 157.7	**22.5%**
Operating Margin	**14.4%**	14.7%	(1.5%)	13.2%	**120 bp**
Effective Tax Rate	**28.5%**	33.1%			
Net Income	$ **145.0**	$ 119.6	$ (11.9)	$ 107.7	
Diluted Earnings per Share	$ **2.24**	$ 1.88	$ (0.19)	$ 1.69	
Income Tax (gain) charge	$ **(2.5)**	$ 4.4		$ 4.4	
Net Income ex-tax (gain) charge	$ **142.5**	$ 124.0		$ 112.1	**27.1%**
Effective Tax Rate	**29.7%**	30.6%			**(90 bp)**
Diluted EPS ex-tax (gain) charge	$ **2.20**	$ 1.94		$ 1.76	**25.1%**

(1) 2006 results include stock-based compensation expense as measured under SFAS 123R. 2006 results have been presented both including and excluding a tax gain of $2.5 million recorded in connection with the favorable settlement of various tax matters.

(2) 2005 "as reported" results reflect stock-based compensation expense as measured under APB 25 and, accordingly, do not include stock-based compensation expense as measured under SFAS 123. 2005 "as reported" results have been presented both including and excluding a $4.4 million tax charge incurred in 2005 in connection with the repatriation of $103 million of accumulated foreign earnings under the Jobs Creation Act.

(3) 2005 pro forma information has been provided to help investors compare like results across both periods. We do not assert that such pro forma numbers are superior to the "as reported" results. 2005 pro forma information represents results adjusted to include stock-based compensation under SFAS 123 and to exclude the $4.4 million tax charge.

JANUARY 2002
Launches Operational and Service Excellence strategy.

AUGUST 2005
Acquires GFI Clinical Services.

MAY 2006
Acquires Signet Laboratories.

2002 2003 2004 2005 2006 2007

APRIL 2006
Announces acquisition of eight early phase clinical pharmacology sites of Radiant Research, Inc. Opens the largest toxicology expansion in Madison, WI.

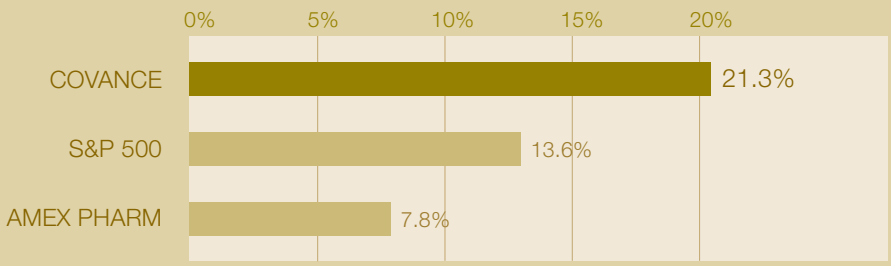
OCTOBER 2002
Acquires Virtual Central Labs.

JUNE 2006
Announces an extended and expanded dedicated space agreement with a minimum value of $187 million. Completed laboratory expansion in Harrogate, U.K.

JANUARY 2007
Commemorates its 10-year anniversary as a publicly traded company at the New York Stock Exchange (NYSE).

BALANCE SHEET DATA	2006	2005	GROWTH
Cash	$ 219.8	$ 160.7	36.8%
Total Assets	$ 1,297.7	$ 1,056.6	22.8%
Shareholders' Equity	$ 923.3	$ 731.8	26.2%

2006 COVANCE STOCK PERFORMANCE VERSUS INDICES



COVANCE®

THE DEVELOPMENT SERVICES COMPANY

Covance, with headquarters in Princeton, New Jersey, is one of the world's largest and most comprehensive drug development services companies with annual revenues greater than $1.3 billion, global operations in more than 20 countries, and more than 8,100 employees worldwide. Information on Covance's products and services, recent press releases, and SEC filings can be obtained through its website at www.covance.com.

Form 10-K, SEC Certification, and NYSE Certification

A copy of the Form 10-K filed by the Company with the Securities and Exchange Commission (SEC) for 2006, which includes as exhibits the Chief Executive Officer and Chief Financial Officer certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act, may be obtained by shareholders without charge upon written request to Covance Inc., 210 Carnegie Center, Princeton, New Jersey 08540-6233. The Company has filed with the New York Stock Exchange (NYSE) the certification of its Chief Executive Officer confirming that the Company has complied with the NYSE corporate governance listing standards. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other investor materials are all available on our web site [www.covance.com].

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Stock Listing

New York Stock Exchange (NYSE)
Symbol: CVD

Investor Relations

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Transfer Agent and Registrar

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Independent Auditors

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MetroPark, NJ

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