



Third Quarter 2006 Earnings

October 26, 2006

Helping to bring miracles to market sooner.

Safe Harbor

Statements contained in this press release, which are not historical facts, such as statements about prospective earnings, savings, revenue, operations, revenue and earnings growth and other financial results are forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements including the statements contained herein regarding anticipated trends in the Company's business are based largely on management's expectations and are subject to and qualified by risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, without limitation, competitive factors, outsourcing trends in the pharmaceutical industry, levels of industry research and development spending, the Company's ability to continue to attract and retain qualified personnel, the fixed price nature of contracts or the loss of large contracts, risks associated with acquisitions and investments, the Company's ability to increase order volume, the pace of translation of orders into revenue in late-stage development services, difficulties or delays in integrating the business of Radiant and achieving anticipated efficiencies and synergies, and other factors described in the Company's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The Company undertakes no duty to update any forward looking statement to conform the statement to actual results or changes in the Company's expectations.

Statement Regarding Adoption of SFAS123(R)

Prior to 2006, Covance followed the disclosure-only provisions of SFAS 123 as it related to expensing of stock options. Accordingly, the Company had accounted for stock awards granted under its equity plans under the recognition and measurement principles of APB25, which provide that no expense is recorded for stock options issued with an exercise price equal to the fair market value of the underlying stock on the date of grant. Covance reflected the expense associated with the fair value of stock option grants in its required pro forma footnote disclosure under SFAS 123 in its SEC filings.

Beginning January 1, 2006, Covance adopted SFAS 123(R). Under SFAS 123(R), all share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based upon their fair values. Management believes that it may be useful for investors in evaluating current period financial performance to compare to 2005 results that include stock option expense computed in accordance with SFAS 123. Management does not assert that such pro forma numbers are superior to the 2005 “as reported” results; however, the pro forma numbers may help investors compare results including stock option expense across both periods. Comparisons made using the pro forma 2005 amounts included in this slide deck have been denoted with an asterisk ().*

Although the Company has begun to use the Lattice-Binomial valuation method for valuing stock options granted beginning in 2006 (whereas previously the Company had used the Black-Scholes Merton valuation method), management believes that the Lattice-Binomial and the Black-Scholes Merton valuation methods, with the assumptions used by the Company, result in fair values which are substantially similar in all material respects. As a result, the Company believes that the 2006 “as reported” amounts under SFAS 123(R) are comparable to the 2005 “pro forma” amounts as previously disclosed under SFAS 123.

See slide 15 for reconciliation between the as reported and pro forma 2005 amounts.

Covance Overview of Services

Early Development

- Preclinical Laboratories (non-human testing)
 - Toxicology
 - Chemistry
- Clinical pharmacology (early human trials)
- Research Products

Late-Stage Development

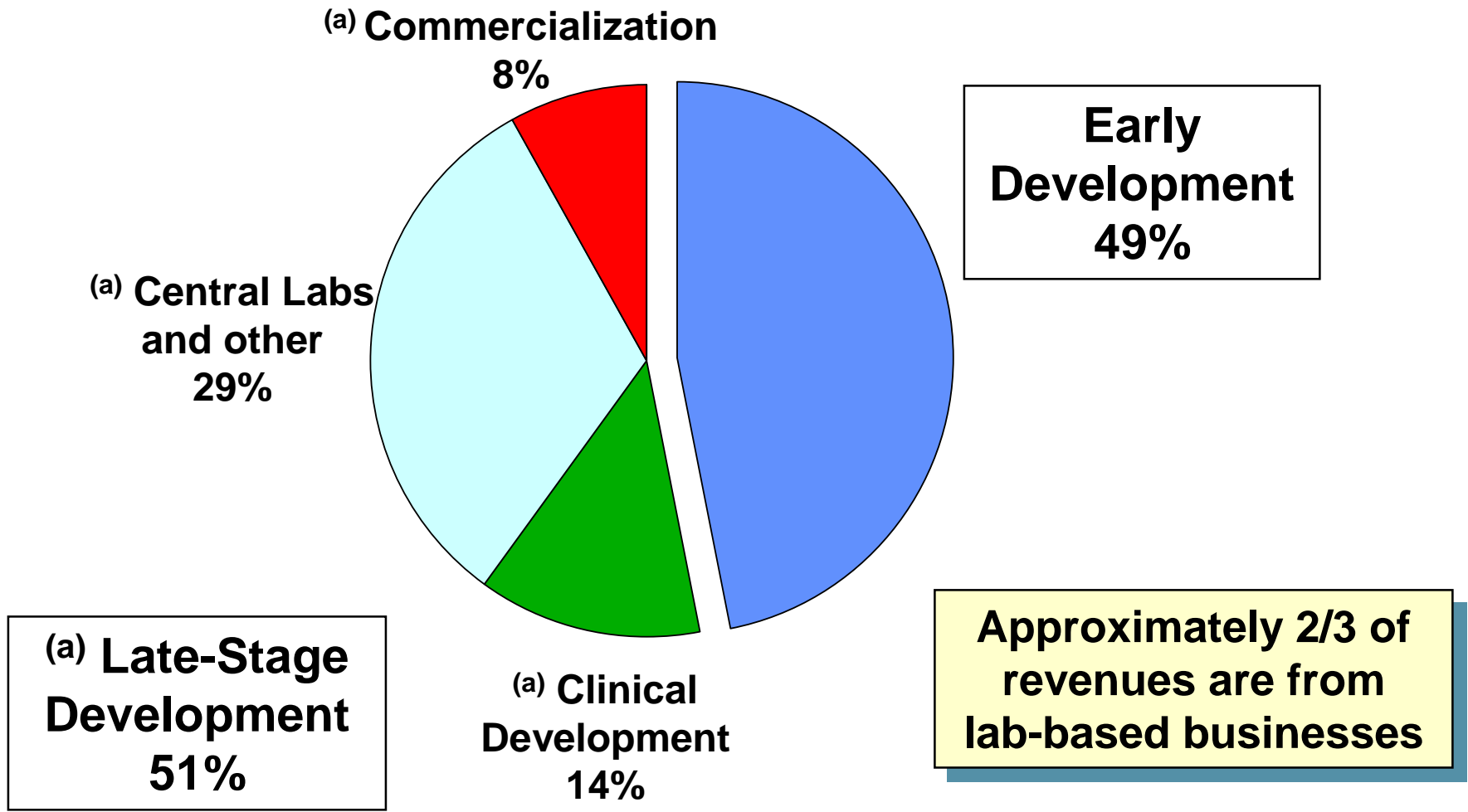
- Central Laboratories and other clinical support services
- Clinical Development (Phase IIb/III human testing)
- Commercialization
 - Market Access Services
 - Periapproval Services (Phase IV)

3Q06 Financial Highlights

- Net Revenues of \$341.5M up 15.6% YOY
- Operating Income of \$49.0M vs. \$39.9M* (up 22.7%* Y/Y) in 3Q05 on a pro forma basis including stock-based compensation
- Operating margins of 14.4% vs. 13.5%* in 3Q05 on a pro forma basis including stock-based compensation
- Net Income excluding tax gain of \$35.8M* vs. \$28.4M* (up 26.1%* Y/Y) in 3Q05 on a pro forma basis including stock-based compensation
- Diluted EPS excluding tax gain of \$0.55* vs. \$0.45* (up 23.6%* Y/Y) in 3Q05 on a pro forma basis including stock-based compensation

* See slide 3 for a discussion of the impact of adopting SFAS 123(R) and slide 15 for a reconciliation between the “as reported” and “pro forma” amounts for 3Q05. See slide 16 for a reconciliation between “as reported” and “as adjusted” amounts for 3Q06 relating to the current period income tax gain.

3Q06 Net Revenues by Service Area

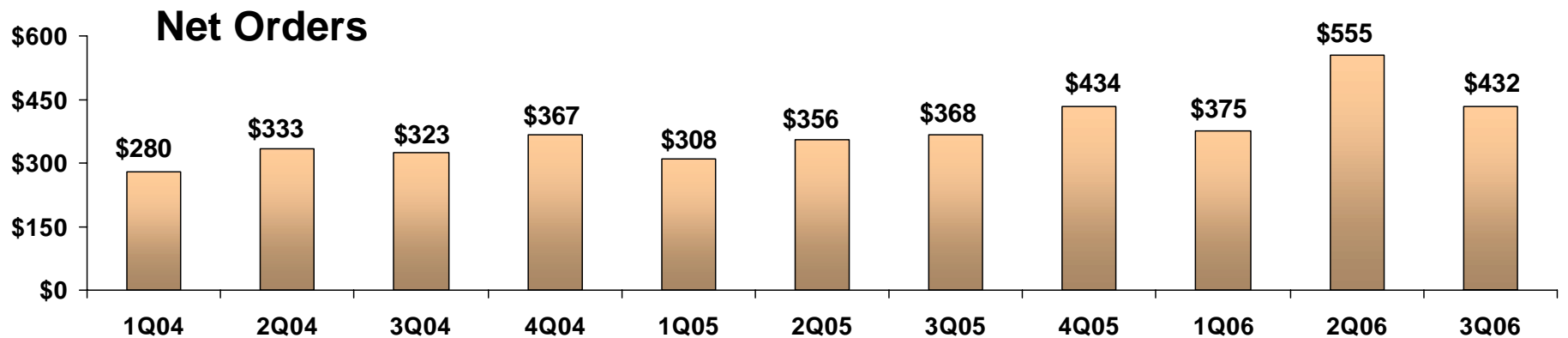
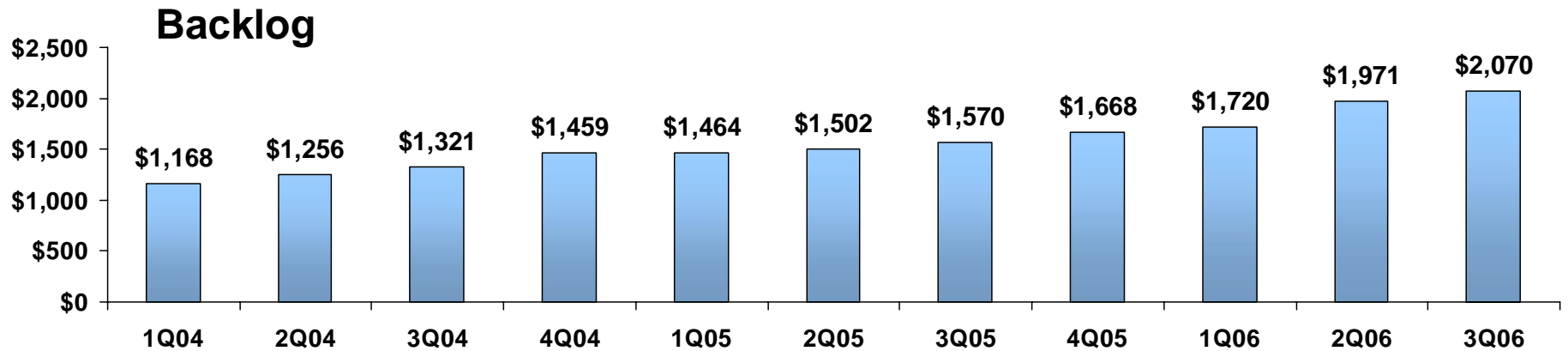


Operating Results by Segment

\$ in millions	Early Development			Late-Stage Development		
	3Q06	3Q05	change	3Q06	3Q05	change
Net Revenues	\$167.4	\$140.5	19.1%	\$174.1	\$154.9	12.4%
Operating Income	\$40.3	\$36.6	10.1%	\$30.4	\$24.3	25.2%
Margin %	24.1%	26.1%		17.5%	15.7%	

SFAS 123(R) stock-based compensation expenses are included in corporate expenses and are not a part of segment results.

Backlog and Net Orders (\$ millions)



Note: Covance believes aggregate backlog is not always a predictor of future results.

Cash Flow Review

- DSOs were 55 days at 9/30/06 vs. 57 days at 6/30/06 and 63 days at 9/30/05
- Cash balance at 9/30/06 was \$210.1M
- 3Q06 CAPEX was \$22.4M
- 3Q06 free cash flow* was a record \$64.1M
- Updated 2006 cash flow* guidance:
 - CAPEX target \$130M to \$140M (vs. ~\$125M)
 - Free cash flow target of ~\$95M (vs. ~\$90M)

* Free cash flow is defined as cash from operations less capital spending

Third Quarter Financial Highlights

- 24% EPS growth to \$0.55*
- Revenue growth accelerated to 15.6%
- Operating margins of 14.4%
 - 90bp YOY increase*; 40bp sequential increase
- Strong net orders: \$432M
 - 17.5% YOY growth
 - Book-to-bill of 1.27
- Backlog growth accelerates to 31.8% YOY

* See slide 3 for a discussion of the impact of adopting SFAS 123(R) and slide 15 for a reconciliation between the “as reported” and “pro forma” amounts for 3Q05. See slide 16 for a reconciliation between “as reported” and “as adjusted” amounts for 3Q06 relating to the current period income tax gain.

Operational Highlights: Early Development

- Accelerated revenue growth of 19.1%; Strong OM of 24.1%
 - Excluding Radiant, OM% increased sequentially
- Dedicated space: Increasing interest from other clients
- Toxicology expansion update:
 - Madison and Harrogate filling on or ahead of internal goals
 - Western US expansion: Construction to begin in Arizona in 2007
- Radiant Research acquisition
 - Integration moving quickly; renovating and expanding 3 of 8 clinics
 - Proposals converting to orders/revenue slower than expected
 - Somewhat more dilutive in 2006 than forecast assumptions
- Program Management
 - Managing 128 molecules for 72 different clients;
~50% growth over 3Q05

Operational Highlights: Late-Stage Development

- Revenue growth of 12.4% and operating margin of 17.5%
- Clinical Development:
 - Sequential improvement in revenue and operating margin
 - Strong third quarter orders
- Central Laboratory:
 - Mid-teens revenue growth and strong operating margin
 - Record orders in 3Q builds on 3 years of very strong orders
 - Given strong orders, 3Q kit volumes lower than expected
- Commercialization:
 - Solid demand for reimbursement hotlines and consulting
 - Robust orders in periapproval
- Cardiac Safety:
 - Soft orders and lower volumes

Outlook

- 2006 earnings target of at least \$2.19 per share
 - Excludes third quarter income tax gain

- Targets for 2007:
 - Low- to mid-teens revenue growth
 - Year-over-year operating margin expansion
 - EPS growth of 20% over 2006 target of at least \$2.19
 - Seventh consecutive year of 20% or greater EPS growth



Appendix



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2005: Impact of Expensing Options - SFAS 123

2005 as reported

	1Q05	2Q05	3Q05	4Q05	FY05
Net Revenue	\$281.3	\$293.9	\$295.4	\$322.4	\$1,193.0
Operating Income	\$40.9	\$41.9	\$44.1	\$48.2	\$175.1
Operating Margin	14.5%	14.3%	14.9%	15.0%	14.7%
Net Income	\$28.9	\$29.6	\$31.2	\$34.3	\$124.0
EPS	\$0.45	\$0.46	\$0.49	\$0.54	\$1.94

2005 SFAS 123 Option Expense

	1Q05	2Q05	3Q05	4Q05	FY05
Operating Income	(\$4.9)	(\$4.5)	(\$4.2)	(\$3.8)	(\$17.4)
Operating Margin	(1.7%)	(1.5%)	(1.4%)	(1.2%)	(1.5%)
Net Income	(\$3.4)	(\$3.1)	(\$2.8)	(\$2.6)	(\$11.9)
EPS	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.04)	(\$0.19)

2005 Pro Forma (as disclosed in footnotes to 2005 financial statements)

	1Q05	2Q05	3Q05	4Q05	FY05
Operating Income	\$36.0	\$37.4	\$39.9	\$44.4	\$157.7
Operating Margin	12.8%	12.7%	13.5%	13.8%	13.2%
Net Income	\$25.5	\$26.5	\$28.4	\$31.7	\$112.1
EPS	\$0.40	\$0.42	\$0.45	\$0.50	\$1.76

Impact of Income Tax Gain – 3Q06

	As Reported	Tax Gain	Adjusted Results Excluding Tax Gain
Pre-Tax income	\$50.8M	-	\$50.8M
Taxes on Income	(\$12.7M)	-	(\$15.2)
Equity Investee Earnings	<u>\$0.2M</u>	-	<u>\$0.2M</u>
Net Income	<u><u>\$38.3M</u></u>	\$2.5M	<u><u>\$35.8</u></u>
EPS	\$0.59	\$0.04	\$0.55
<i>Effective Tax Rate</i>	25.0%	-	29.9%

Days Sales Outstanding *(\$ in thousands)*

Period Ended	Accounts Receivable	Unbilled Receivables	Total A/R + Unbilled	Client Advances	Net	Trailing 3 Mos Revenue
30-Sep-06	\$212,802	\$95,661	\$308,463	\$(100,991)	\$207,472	\$341,478
Days	57	25	82	(27)	55	
30-Jun-06	\$205,315	\$100,723	\$306,038	\$(95,189)	\$210,849	\$335,240
Days	56	27	83	(26)	57	
31-Mar-06	\$193,736	\$96,207	\$289,943	\$(90,655)	\$199,288	\$320,509
Days	55	27	82	(26)	56	
31-Dec-05	\$206,098	\$88,297	\$294,395	\$(96,987)	\$197,408	\$322,354
Days	58	25	83	(27)	56	
30-Sep-05	\$205,571	\$80,430	\$286,001	\$(81,369)	\$204,632	\$295,368
Days	63	25	88	(25)	63	
30-Jun-05	\$193,460	\$74,079	\$267,539	\$(73,847)	\$193,692	\$293,963
Days	60	23	83	(23)	60	
31-Mar-05	\$182,969	\$73,612	\$256,581	\$(85,317)	\$171,264	\$281,265
Days	59	24	83	(28)	55	
31-Dec-04	\$178,518	\$63,220	\$241,738	\$(87,325)	\$154,413	\$268,857
Days	60	21	81	(30)	51	
30-Sep-04	\$161,537	\$64,120	\$225,657	\$(68,759)	\$156,898	\$256,334
Days	57	23	80	(24)	56	
30-Jun-04	\$160,210	\$54,109	\$214,319	\$(71,282)	\$143,037	\$250,995
Days	58	20	78	(26)	52	

Other Information

(\$ millions)

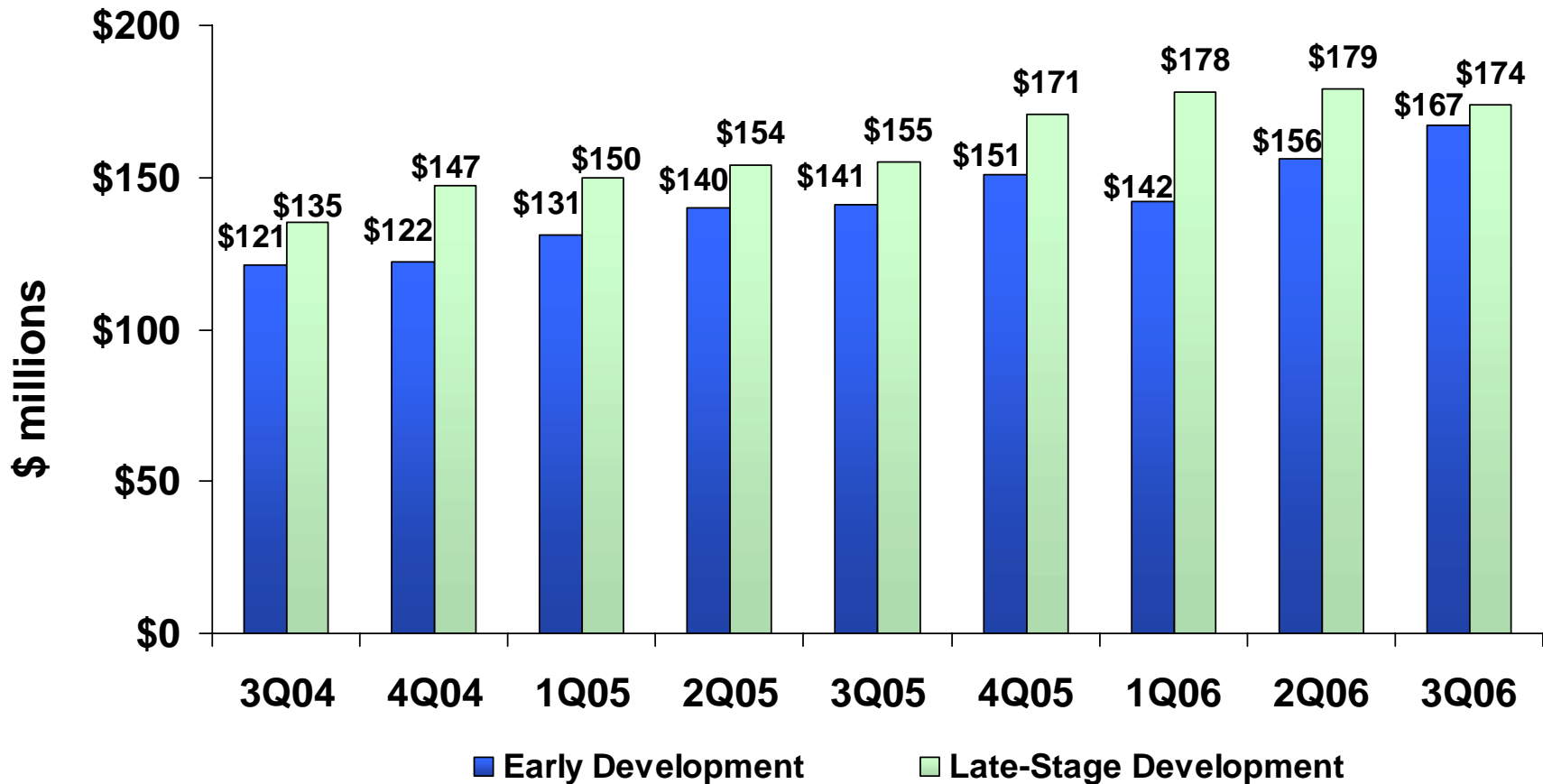
	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
CAPEX	\$35.3	\$23.7	\$31.2	\$39.4	\$58.8	\$19.2	\$30.2	\$22.4
D&A	\$11.9	\$11.5	\$11.8	\$11.8	\$12.7	\$12.7	\$14.2	\$14.6
Employees	6,725	6,808	7,003	7,255	7,318	7,418	7,946	8,058

Revenue and Operating Income

	\$ in thousands	Q1	Q2	Q3	Q4	YTD
Net Revenues	2006					
	Early Dev	\$142,439	\$155,749	\$167,389		\$465,577
	Late-Stage Dev	\$178,070	\$179,491	\$174,089		\$531,650
	2005					
	Early Dev	\$130,951	\$139,766	\$140,508	\$150,942	\$562,167
	Late-Stage Dev	\$150,314	\$154,197	\$154,860	\$171,412	\$630,783
Operating Income	2006					
	Early Dev	\$35,499	\$39,135	\$40,330		\$114,964
	Late-Stage Dev	\$31,983	\$28,530	\$30,433		\$90,946
	Corp Admin	(\$21,638)	(\$20,625)	(\$21,727)		(\$63,990)
	2005 (pro forma)*					
	Early Dev	\$31,976	\$33,718	\$36,639	\$37,754	\$140,087
	Late-Stage Dev	\$25,644	\$26,895	\$24,300	\$27,828	\$104,667
	Corp Admin*	(\$21,684)	(\$23,186)	(\$20,984)	(\$21,214)	(\$87,068)

*See slide 3 for a discussion of the impact of adopting SFAS123R and slide 15 for a reconciliation between the "as reported" and "pro forma" amounts.

Quarterly Net Revenues by Segment



Quarterly Net Revenues US vs. Non-US

