



SHARPENING OUR FOCUS

Covance 2000 Annual Report

CHAIRMAN'S LETTER

To Our Shareholders:

During the past year, Covance has taken several important steps to sharpen our business focus, strengthen our balance sheet, and create value for our pharmaceutical customers and our shareholders. With our industry-leading preclinical and central laboratory testing platforms and our extensive experience in clinical trials, Covance aims to reduce the time and cost of drug development significantly by producing high-quality data that can be reviewed more quickly and efficiently in near real time.

FINANCIAL PERFORMANCE

Softer demand for Phase III clinical services in 2000 led to increased price competition, lower revenues, and reduced margins for most leading contract drug developers, including Covance. To address this situation, we reduced our clinical development cost base by approximately \$16 million annually through a global restructuring effort and invested in automation and new technologies to create opportunities to enhance our financial results. Our improved fourth-quarter financial results as well as early indicators that pharmaceutical companies are increasing late-stage clinical development activities encourage us. However, we remain cautiously optimistic about our prospects for improved financial performance in 2001.

For the full year 2000, Covance net revenues increased 4.7 percent, to \$868.1 million. Excluding net special charges, net income was \$22.9 million, versus \$53.6 million in 1999. This resulted in diluted earnings per share of \$0.40 for 2000, compared to \$0.91 for the prior year.

In Covance's Early Development segment, which includes our preclinical and Phase I clinical trial services, operating margins declined to 13.3 percent in 2000, from 15.7 percent in 1999. Our core toxicology business, which accounts for approximately half of all Early Development revenues, delivered solid results last year. However, operating margins for the entire segment were negatively impacted by revenue softness in other areas, coupled with investments in new services and Internet-enabled data management systems.

Operating margins for our Late-Stage Development segment, which includes our central laboratory, clinical development, biomanufacturing, commercialization, and other support services, declined to 3.3 percent in 2000, from 10.2 percent in the prior year, primarily because of losses in clinical development and biomanufacturing in the first nine months of 2000. These units returned to modest profitability in the fourth quarter, driving significantly stronger results in the segment.

SHARPENING OUR FOCUS

In light of the changing competitive landscape for contract drug development services, Covance's management and Board of Directors undertook a comprehensive review of our businesses and the markets they serve. As part of this process, we considered our ability to meet the evolving needs of our customers from a leadership position based on our vast experience, expertise, technological capabilities, and financial resources.

We believe that Covance will be able to compete more effectively by focusing on fewer—but more strategic—services that have the potential to reduce the time and cost of drug development significantly. Despite recent advances in the science and methodology of drug development, there remains a substantial lag time between the generation of laboratory and clinical data and the evaluation of these data by drug development sponsors. By closing this gap, Covance can help drug companies make faster, better-informed decisions regarding the potential success of their drug development programs.



As a result, we are strategically repositioning Covance to:

- ▣ Leverage our clear leadership positions in Early Development and Central Laboratory services.
- ▣ Pursue Phase III clinical development contracts selectively, focusing on operational excellence, customer satisfaction, and margin improvement.
- ▣ Invest in science and technology initiatives with the potential to improve access to high-quality drug development data and allow review in near real time.

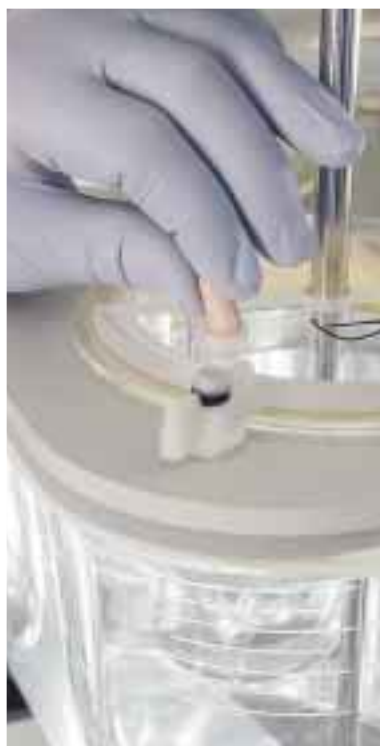
To facilitate this repositioning effort, we are pursuing the divestiture of certain capital-intensive businesses that do not enable real-time access to data. In February 2001, we sold our pharmaceutical packaging business to Fisher Scientific for \$137.5 million and applied the net proceeds of approximately \$115 million to pay down debt. We are currently negotiating the sale of our biomanufacturing unit and, if successful, will use those proceeds to reduce our debt and interest expense further.

ENHANCING QUALITY, REDUCING TIME AND COST

Consistent with our repositioning strategy, Covance continues to invest in science and Internet-based information management technologies that will enhance our competitive position.

Our new Study Tracker™ system will provide clients with secure and rapid access to toxicology and other data from Covance's global Early Development operations. Using a web browser, clients can view critical data within 24 hours after a test has been completed, instead of waiting the usual month or more. Study Tracker will be rolled out in early 2001.

Our new BioLink™ service, launched in October, offers pharmaceutical customers a faster, more efficient way to manage their clinical testing needs and produce better-quality data. BioLink measures drug and metabolite levels in body fluids to help determine the appropriate drug dosage throughout the development process. The new, state-of-the-art



BioLink facility is adjacent to Covance's industry-leading central laboratory in Indianapolis, which manages more than 4.5 million medical samples from clinical trials each year. This location allows us to leverage our existing global shipping infrastructure and sample management expertise.

Through our collaboration with Variagenics, Inc., a leader in determining the effects of genetic variation on treatment outcomes, we continue to integrate pharmacogenomics into our central laboratory testing services. During 2000, Variagenics transferred 33 validated assays to Covance to identify genetic differences that may predict patient responses to specific classes of drugs. Covance's new genotyping services aim to enable more effective clinical trial design and ultimately increase the success rate of new drug candidates.

In October, we formed a subsidiary called Nexigent™, which will more effectively develop, brand, and market our Internet-enabled capabilities for enhancing clinical trials. Nexigent will provide Internet-based services such as the capture and management of voluminous patient data, investigator site activation, clinical trial start-up, and investigator recruitment, and tools to enhance communication among patients, investigators, and clinical-trial sponsors. In early 2001, our new, Internet-enabled tool called Lab Link will allow our central laboratory clients to view central lab results on-line in near real time through the Nexigent portal.

We have also made substantial investments in automating processes at our central laboratories. For example, we installed a state-of-the-art sample kit assembly system that significantly enhances the quality, capacity, and efficiency of this labor-intensive task. This new system will be on-line at our Indianapolis facility in the first half of 2001. Going forward, we will continue to invest in systems to improve the collection, analysis, and reporting of central laboratory data to extend our market leadership in this area.



While our financial performance in 2000 was below our historical levels, we remain confident in both the long-term outlook for contract drug development services and in Covance's ability to serve this market as an innovative leader.

On behalf of Covance's Board of Directors and our dedicated employees around the world, I thank you for your continued support.

Sincerely,

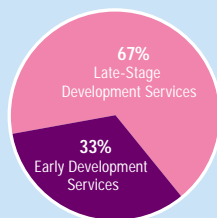
A handwritten signature in blue ink that reads "Chris Kuebler". The signature is written in a cursive, flowing style.

Chris Kuebler
Chairman, President, and Chief Executive Officer

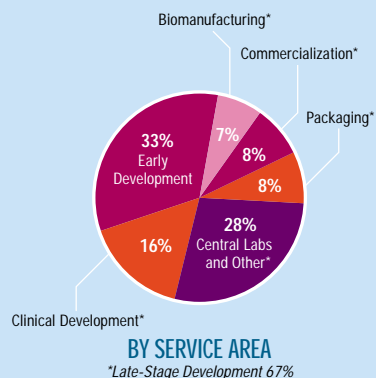
2000 DISTRIBUTION OF NET REVENUES



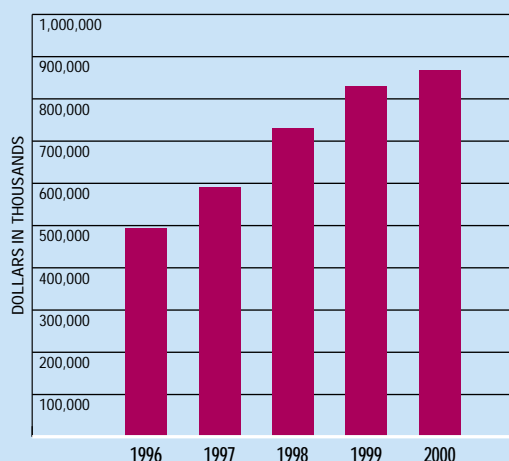
GEOGRAPHICALLY



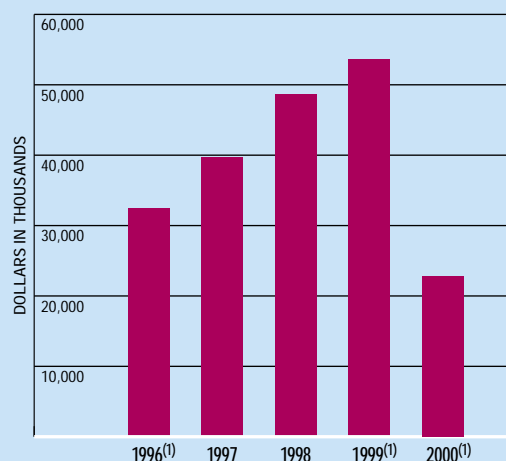
BY SEGMENT



BY SERVICE AREA



NET REVENUES



NET INCOME

(1) Amounts before the impact of special charges (2000 net restructuring charge totaling \$12,514 pre-tax, \$7,634 net of tax; 1999 merger-related costs totaling \$5,249 pre-tax, \$3,150 net of tax, and 1999 restructuring charge totaling \$7,719 pre-tax, \$4,631 net of tax; 1996 spin-off related charge of \$27,404 pre-tax, \$19,725 net of tax).

CONSOLIDATED STATEMENTS OF INCOME DATA

(Dollars in thousands, except per-share amounts)

Year ended December 31	2000	1999	1998	1997	1996
Net Revenues	\$ 868,087	\$ 828,980	\$ 731,574	\$ 590,651	\$ 494,828
Income from Operations	\$ 57,134 ⁽¹⁾	\$ 99,547 ⁽¹⁾	\$ 91,879	\$ 77,660	\$ 65,265 ⁽¹⁾
Operating Margin %	6.6 %	12.0 %	12.6 %	13.1 %	13.2 %
Net Income	\$ 22,870 ⁽¹⁾	\$ 53,599 ⁽¹⁾	\$ 48,608	\$ 39,754	\$ 32,441 ⁽¹⁾
Basic Earnings per Share	\$ 0.40 ⁽¹⁾	\$ 0.91 ⁽¹⁾	\$ 0.84	\$ 0.69	\$ 0.57 ⁽¹⁾
Diluted Earnings per Share	\$ 0.40 ⁽¹⁾	\$ 0.91 ⁽¹⁾	\$ 0.83	\$ 0.69	N/A
Weighted Average Shares					
Basic	57,424,403	58,477,199	58,050,144	57,254,042	57,063,644
Diluted	57,492,384	58,680,794	58,774,334	57,463,587	N/A

BOARD OF DIRECTORS



Christopher A. Kuebler
Chairman of the Board,
President and Chief Executive Officer,
Covance Inc.;
Corporate Governance Committee



J. Randall MacDonald
Senior Vice President, Human Resources,
IBM Corporation;
Corporate Governance Committee
Compensation and Organization Committee



Robert M. Baylis
Retired Vice Chairman,
CS First Boston Corporation;
Audit and Finance Committee



Nigel W. Morris
President and COO,
Capital One Financial Corporation;
Corporate Governance Committee
Compensation and Organization Committee



Van C. Campbell
Retired Vice Chairman,
Corning Incorporated;
Audit and Finance Committee



Kathleen G. Murray
Executive Vice President and COO,
Northwestern Memorial HealthCare;
Audit and Finance Committee



Irwin Lerner
Retired Chairman of the Board and
Executive Committee,
Hoffmann-La Roche Inc.;
Compensation and Organization Committee



William G. Ughetta
Retired Senior Vice President
and General Counsel,
Corning Incorporated;
Audit and Finance Committee
Corporate Governance Committee

Covance, with headquarters in Princeton, New Jersey, is one of the world's largest and most comprehensive drug development services companies, with 2000 revenues of \$868 million, operations currently in 17 countries, and approximately 7,900 employees worldwide. More detailed information on Covance's products and services, recent press releases, and SEC filings can be obtained through our web site at [www.covance.com].

MARKET PRICES OF COMMON STOCK






The Company's Common Stock is traded on the New York Stock Exchange (symbol: CVD). The following table shows the high and low sales prices on the New York Stock Exchange for each of the past eight fiscal quarters.

Quarter	High	Low
First Quarter 1999	\$ 32.875	\$ 23.250
Second Quarter 1999	\$ 29.125	\$ 19.438
Third Quarter 1999	\$ 24.875	\$ 8.188
Fourth Quarter 1999	\$ 11.563	\$ 8.875
First Quarter 2000	\$ 16.375	\$ 9.813
Second Quarter 2000	\$ 11.750	\$ 6.500
Third Quarter 2000	\$ 14.000	\$ 7.500
Fourth Quarter 2000	\$ 11.875	\$ 6.625

As of February 9, 2001, there were 7,264 holders of record of the Company's Common Stock.

The Company did not pay dividends in 1997, 1998, 1999, or 2000. The Company does not intend to pay dividends in the foreseeable future, but rather intends to reinvest earnings into its business. The Company is also restricted (subject to certain exceptions) from paying dividends on its Common Stock by certain covenants contained in a credit agreement to which the Company is a party.

SNAPSHOTS OF 2000

January	February	March	April	May	June
					
		E-COMPLIANCE Covance offers electronic regulatory submissions service in partnership with industry-leading companies.			ASIAN EXPANSION Covance central laboratory opens in Singapore to serve fast-growing East Asian market.
EUROPEAN EXPANSION Pharmaceutical analysis facility in Harrogate, U.K. and Phase I clinical research unit in Leeds, U.K. are expanded to meet growing customer needs.				CENTRALIZED IMAGING Covance Centralized Imaging Center opens to meet growing industry need for imaging to document clinical safety and efficacy.	
			GENOMICS ALLIANCE Variagenics transfers the first 17 validated genotyping assays for incorporation into clinical trial designs.		
				RESTRUCTURING Phase III clinical services are restructured to save \$16 million annually.	

July	August	September	October	November	December
	<p>SERVICE EXCELLENCE</p> <p>Eli Lilly and Company awards Covance a <i>2000 Supplier Award</i> for outstanding customer service.</p>		<p>NEXIGENT™</p> <p>Covance forms Nexigent to develop, brand, and market its Internet-enabled capabilities for enhancing clinical trials.</p> 	<p>BIOLINK™</p> <p>Covance launches BioLink, a new bioanalytical services offering, and officially opens its 35,000-square-foot, state-of-the-art bioanalytical laboratory in Indianapolis, Indiana.</p>	<p>PROFIT</p> <p>Covance delivers earnings per share of \$0.40 (excluding special charges) for full year 2000. Clinical and Biomanufacturing units deliver modest profits in the fourth quarter.</p>
<p>HOLTER MONITORING</p> <p>Covance offers Continuous Ambulatory Electrocardiogram (ECG) monitoring service for major clinical studies to improve data quality.</p>		<p>STRATEGIC REPOSITIONING</p> <p>Covance announces strategic repositioning to reduce the time and cost of drug development significantly and also announces the planned divestitures of the pharmaceutical packaging and biomanufacturing businesses.</p>	 <p>BioLink Facility in Indianapolis, Indiana</p>		<p>DEBT REDUCTION</p> <p>Fisher Scientific agrees to acquire Covance's pharmaceutical packaging business for \$137.5 million. Net proceeds of approximately \$115 million are earmarked to reduce debt.</p>
				<p>GENOMICS ALLIANCE</p> <p>Variagenics transfers the second set of 16 validated genotyping assays for incorporation into clinical trial designs.</p>	

CORPORATE OFFICES

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Princeton, NJ 08540-6233
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Facsimile: 609/452-9375
www.covance.com

STOCK LISTING

New York Stock Exchange (NYSE)
Symbol: CVD

FINANCIAL REPORTS

Copies of the Company's Annual Report, Quarterly Reports, Form 10-K, Form 10-Q, and other investor materials are all available on our web site [www.covance.com] or are available upon request by calling 609/419-2037.

INVESTOR RELATIONS

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Princeton, New Jersey 08540-6233
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Facsimile: 609/734-4949
E-mail: info@covance.com

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services, LLC
2 North LaSalle Street
Chicago, IL 60602
312/360-5270
www.computershare.com

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Florham Park, New Jersey

COVANCE LOCATIONS

North America

Alice, TX
Berkeley, CA
Cumberland, VA
Denver, PA
Gaithersburg, MD
Indianapolis, IN
Kalamazoo, MI
Madison, WI (2)
Montreal, Canada
Nashville, TN
Princeton, NJ
Radnor, PA
Reno, NV
Research Triangle Park, NC
Richmond, CA
San Diego, CA
Vienna, VA

Europe

Brussels, Belgium
Geneva, Switzerland
Harrogate, England
Horsham, England
Leeds, England
Madrid, Spain
Maidenhead, England
Munich, Germany
Münster, Germany
Paris, France
Stockholm, Sweden
Warsaw, Poland

Asia/Pacific Rim

Beijing, China
Singapore
Sydney, Australia
Tokyo, Japan

South America

Buenos Aires, Argentina

Africa

Cape Town, South Africa



Shaping Solutions

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