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Dear Shareholder:

The past year was extremely difficult with respect to the capital markets. Incyte's valuation was no exception. Despite this, we advanced our key programs and prioritized in a clear manner those which we believe we can afford to develop. As such, our focus in 2009 will be to initiate pivotal trials in myelofibrosis with our lead product candidate, the JAK1/2 inhibitor, INCB18424, while continuing clinical development of this compound in the other myeloproliferative disorders, polycythemia vera and essential thrombocythemia. We also intend to continue development of the topical formulation of INCB18424 in psoriasis and take a second JAK1/2 inhibitor, INCB28050, into a dose-ranging Phase II trial in rheumatoid arthritis. A Phase IIb trial in type 2 diabetes with our 11beta-HSD1 inhibitor, INCB13739, will complete this summer while the Phase II program in breast cancer patients for our sheddase inhibitor, INCB7839, continues.

Although we ended 2008 with enough cash to advance our lead drug candidates, an important objective in 2009 is to secure additional funds through the establishment of partnerships for a number of programs. We are receiving serious interest in them from other pharmaceutical companies and I am optimistic that partnerships represent a realistic source of capital.

I am also confident our focus on programs that can create the greatest near-term value and on partnering certain of them is prudent and should expedite our transition from a pure discovery company to one that can successfully develop and commercialize important new medicines.

Summary of 2008 Achievements

JAK inhibitors are a new class of drugs we believe will be useful in treating a variety of cancers and chronic inflammatory conditions. Our most advanced JAK1/2 inhibitor, INCB18424, is being developed as a treatment for myeloproliferative disorders (MPDs), a closely related group of hematological malignancies that include myelofibrosis (MF), polycythemia vera (PV) and essential thrombocythemia (ET). MPDs represent a highly concentrated market with significant unmet medical needs which we believe we can effectively reach on our own in the U.S. and possibly Europe. With pivotal Phase III trials in

MF expected to begin this year, and the possibility for an expedited review and approval process, this program represents our nearest-term commercial opportunity.

Key Accomplishments in the Myeloproliferative Disorders Program

- Submitted a special protocol assessment to secure agreement to begin pivotal Phase III trials in the first half of 2009
- Orphan status granted in the U.S. and Europe for MF, including primary MF, post PV-MF and post ET-MF
- Presented positive Phase II results at several scientific meetings demonstrating that INCB18424 treatment results in rapid and durable clinical benefits in MF patients
- Initiated an open-label multiple-dose Phase II trial to determine the safety and efficacy of INCB18424 in patients with advanced PV and ET, which could expand our market opportunity in MPDs

Myeloproliferative disorders affect approximately 200,000 people in the United States and a larger number in Europe. These disorders tend to be treated by hematologists and oncologists who could be efficiently reached through our own sales and marketing efforts. We have already established strong relationships with many key opinion leaders in these specialties and have conducted initial market research among them confirming the clinical and commercial potential of INCB18424 in this disease area.

A topical formulation of INCB18424 achieved positive clinical results in our early Phase IIa trials involving 42 mild to moderate psoriasis patients. A Phase IIb three-month dose-ranging trial involving over 200 patients should complete this summer and the results will be used to determine the future development and partnering goals for topical INCB18424.

INCB28050, our lead oral JAK inhibitor compound for systemic inflammatory indications, has completed single- and multiple-dose Phase I studies in healthy volunteers. In a 28-day Phase I drug-interaction study in patients with rheumatoid arthritis, INCB28050 was safe and well-tolerated and showed impressive efficacy. We expect to begin the Phase II development program in May of this year. INCB28050 has therapeutic potential in multiple indications including rheumatoid arthritis as well as other types of inflammatory arthritis, inflammatory bowel disease such as Crohn's disease, dry eye and another ocular inflammatory disease, anterior uveitis. Because of these multiple opportunities, and because of our objective to remain competitive by advancing these indications in parallel as opposed to in series, we are seeking to partner this program. Based on the clinical results seen with INCB28050 and other JAK inhibitors in development, it is clear that these oral compounds have the potential to be equally efficacious if not superior to the highly effective anti-TNF biologics.

Our 11beta-HSD1 inhibitor, INCB13739, which is being developed for type 2 diabetes, achieved positive Phase IIa trial results in 2008. As I mentioned above, the double-blinded, placebo-controlled, dose-ranging, three-month Phase IIb clinical trial is now completely enrolled with results expected this summer. As has been our objective since we began this program, if these results are positive, we intend to secure a partner for INCB13739.

Our sheddase inhibitor, INCB7839, which is being developed for breast cancer is in an ongoing Phase II trial in combination with Herceptin®. We have seen encouraging early results in a well-defined subset of breast cancer patients and similar results in additional patients would define a clear and potentially rapid path forward for regulatory approval.

In 2008, we filed investigational new drug applications (INDs) for two new oncology programs involving, respectively, oral inhibitors of c-MET and indoleamine 2, 3-dioxygenase. Both INDs have been cleared by the FDA. We intend to initiate clinical trials for these compounds once we secure additional funding from one or more corporate partners.

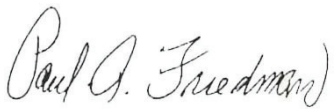
We have several other programs that we believe warrant further development, including our CCR2 inhibitor for multiple sclerosis, our CCR5 inhibitors for HIV and our HM74 agonist for type 2 diabetes. These are now outside our core focus in oncology and inflammation and we are looking to out-license these programs.

Last year's appointment of Pat Andrews as Incyte's executive vice president and chief commercial officer reflected our decision to begin building the capabilities and infrastructure to commercialize our first product. Pat's pharmaceutical industry experience and expertise in launching and marketing new oncology therapies and in business development are especially valuable to us as we advance INCB18424 into registration studies and expand our partnering activities.

Finally, I want to express my gratitude to Matthew Emmens for his service to Incyte as a member of our board of directors. We wish him well in his new position at Vertex Pharmaceuticals.

In closing, I want to thank our employees for their many contributions to our goal to discover, develop and commercialize important new medicines. I have great confidence that their ongoing efforts and hard work in 2009 and beyond will yield substantial value to all of our key stakeholders.

Sincerely,



Paul A. Friedman, M.D.

President and Chief Executive Officer
April 2009

Forward-looking Statements

Except for the historical statements contained herein, the statements contained in this annual report, including without limitation, statements as to our transition from a pure drug discovery company, the expected timing and other information regarding our preclinical and clinical trials, the likelihood of initiating pivotal trials of and receiving expedited review for our JAK inhibitor for myelofibrosis, the potential usefulness of our compounds in treating disease and commercial potential, and our plans to seek partnerships or out-licensing opportunities and to commercialize certain programs on our own, are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on our current intent, belief and expectations, using information currently available to us, and are therefore subject to certain risks, uncertainties, and assumptions that may cause actual results to differ materially, including the high degree of risk associated with drug development and clinical trials, the uncertainty of the FDA and European approval process, results of further research and development, the impact of technological advances and competition, our ability to enroll a sufficient number of patients for our clinical trials, unanticipated delays in programs or uses of capital, and other risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2008, and in our filings with the Securities and Exchange Commission. These forward-looking statements speak only as of the date hereof. Incyte disclaims any intent or obligation to update these forward-looking statements.