Delivering biotechnology.

We develop controlled-release
pharmaceutical delivery systems to
relieve chronic pain, target post-operative pain
and make drug dosing safer,
more consistant and more effective.

DURECT


Felix Theeuwes, D.Sc.


James E. Brown, D.V.M.


Thomas A. Schreck

Highlights of the Year

Initiated In-vivo animal studies for CHRONOGESIC® with design enhancements

Pain Therapeutics Inc. announces the initiation of development of Remoxy™, a new drug candidate to deter oxycodone abuse using DURECT's oral SABER™ technology

Positive Phase I Clinical Result for DURECT's Post Operative Pain Relief Depot using the SABER™ Delivery System

DURECT raises $60 million of 6_% Convertible Notes Due in June 2008.

Phase I clinical testing initiated for the Post Operative Pain Relief Depot product using the SABER™ Delivery System

Pain Therapeutics and DURECT Corporation announce exclusive agreement to develop and commercialize certain oral long-acting opioid products utilizing the SABER™ Delivery System

Dear Fellow Shareholders, In 2003, we advanced our product pipeline, broadened the scope of our partnered and internally developed products and strengthened our financial condition. We remain committed to achieving our goals of providing patients with better medicines and creating value for our shareholders.

Product Development Pipeline and Technology DURECT now has three programs in development that are utilize our technologies: our CHRONOGESIC® (sufentanil) Pain Therapy System, partnered with Endo Pharmaceuticals for the U.S. and Canada, and our post-operative pain depot product, under development by DURECT. In addition, our partner, Pain Therapeutics Inc. has advanced into clinical development an oral oxycodone product named Remoxy™ based on our SABER™ Delivery System.

In 2003, we made significant progress in the development of our CHRONOGESIC product and look forward to restarting our clinical program in the second half of 2004.

We are researching and developing a variety of controlled-release products based on our SABER technology. These include injectable controlled release products for systemic and local delivery and oral products. We expect that we will continue to advance this technology into late stage clinical development as well as initiate new development programs based on this technology.

Capable Management, a Strong Balance Sheet, Solid Strategic Collaborations and Marketed Products DURECT has an experienced and diverse management team with backgrounds from the biotechnology, pharmaceutical, drug delivery and medical device industries. We have strong product development partnerships ongoing and under negotiation. In addition, we have two important strategic commercial assets with our erodible polymer product line provided by Absorbable Polymers International and our ALZET® osmotic pump research product line. Pharmaceutical development is a complex business, and this foundation of solid experience is extremely helpful when executing on the Company's objectives.

In addition, DURECT has a flexible business model that allows us to research, develop and market products directly or through strategic commercialization partners. Our existing collaborations provide an estimated $130 million in potential R & D funding and milestone payments through the course of our collaborations. With our potential collaborative funding combined with over $85 million in cash on our balance sheet, we have the flexibility and liquidity to fund our research, development and commercialization activities.

On behalf of everyone at DURECT, we thank you for your continued support.

Felix Theeuwes, D.Sc
Chairman and
Chief Scientific Officer

James E. Brown, D.V.M.
President and
Chief Executive Officer

Thomas A. Schreck
Chief Financial Officer

Executive Officers

Felix Theeuwes, D.Sc.
Chairman, Chief Scientific Officer and Director

James E. Brown, D.V.M.
President, Chief Executive Officer and Director

Thomas A. Schreck
Chief Financial Officer and Director

Jean I Liu
Senior Vice President, General Counsel and Secretary

Timothy S. Nelson
Senior Vice President, Business and Commercial Development

Su IL Yum, Ph.D.
Senior Vice President, Engineering

Tai Wah Chan, Ph.D.
Vice President, Pharmaceutical Research and Development

Edward M. Gillis
Vice President of Engineering

Steven C. Halladay, Ph.D.
Vice President, Clinical and Regulatory

Jean Li
Vice President, Finance and Corporate Controller

Michael J. Taylor, Ph.D.
Vice President, Nonclinical Research

Board of Directors

Felix Theeuwes, D.Sc.
Chairman, Chief Scientific Officer and Director

James E. Brown, D.V.M.
President, Chief Executive Officer and Director

Thomas A. Schreck
Chief Financial Officer and Director

Michael D. Casey
Director

David R. Hoffman
Director

Armand P. Neukermans Ph.D.
Director

Jon S. Saxe
Director

Albert L. Zesiger
Director

Additional Information

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Cupertino, California 95014
www.durect.com

Annual Meeting

The company's annual meeting of stockholders will be held at 9:00 A.M. local time June 3, 2004 at Company Headquarters

Auditors

Ernst & Young LLP
Palo Alto, CA

Legal Counsel

Heller Ehrman/Venture Law Group
Menlo Park, CA

Transfer Agent

EquiServe Trust Company, N.A.
150 Royal Street
Canton, MA 02021 USA
Tel: 781.575.3400

SEC Form 10-K

A copy of the Company's annual report to the United States Securities and Exchange Commission on Form 10-K is available without charge upon written request to:
DURECT Corporation
Attn: Investor Relations
10240 Bubb Road
Cupertino, California 95014

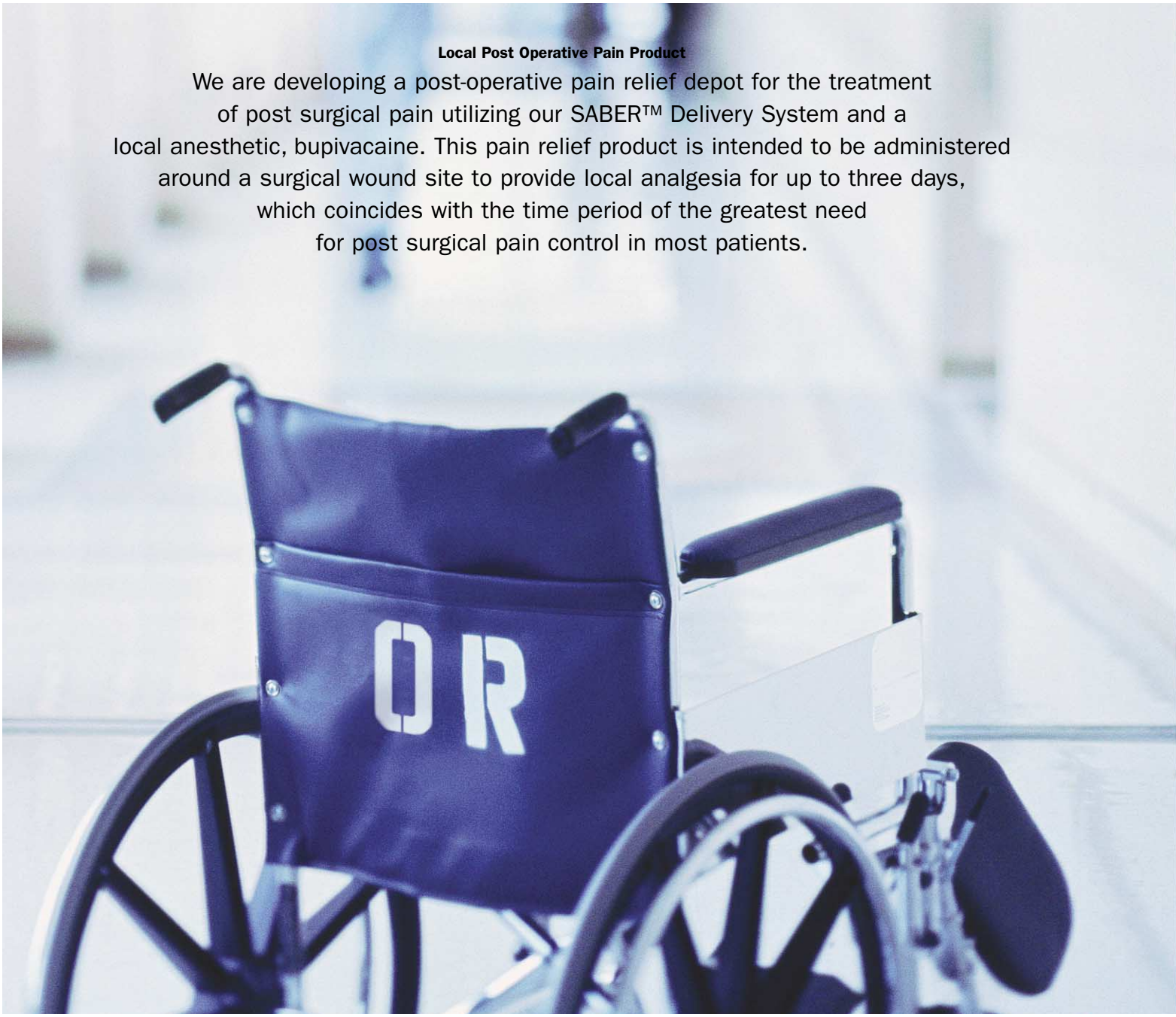
Trademarks

The statements in this report regarding DURECT's products in development and product development plans are forward-looking statements involving risks and uncertainties that can cause actual results to differ materially from those in such forward-looking statements. Potential risks and uncertainties include, but are not limited to, DURECT's ability to complete the design, development, and manufacturing process development of its products, manufacture and commercialize its products, obtain product and manufacturing approvals from regulatory agencies, manage its growth and expenses, manage relationships with third parties, finance its activities and operations, as well as marketplace acceptance of DURECT's products. Further information regarding these and other risks is included in DURECT's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the SEC on March 11, 2004, DURECT's Quarterly Report on Form 10-Q and other periodic reports filed with the SEC under the heading "Factors that may affect future results."

concept and design: extralarge, a design studio (www.xlstudios.com)

Local Post Operative Pain Product

We are developing a post-operative pain relief depot for the treatment of post surgical pain utilizing our SABER™ Delivery System and a local anesthetic, bupivacaine. This pain relief product is intended to be administered around a surgical wound site to provide local analgesia for up to three days, which coincides with the time period of the greatest need for post surgical pain control in most patients.



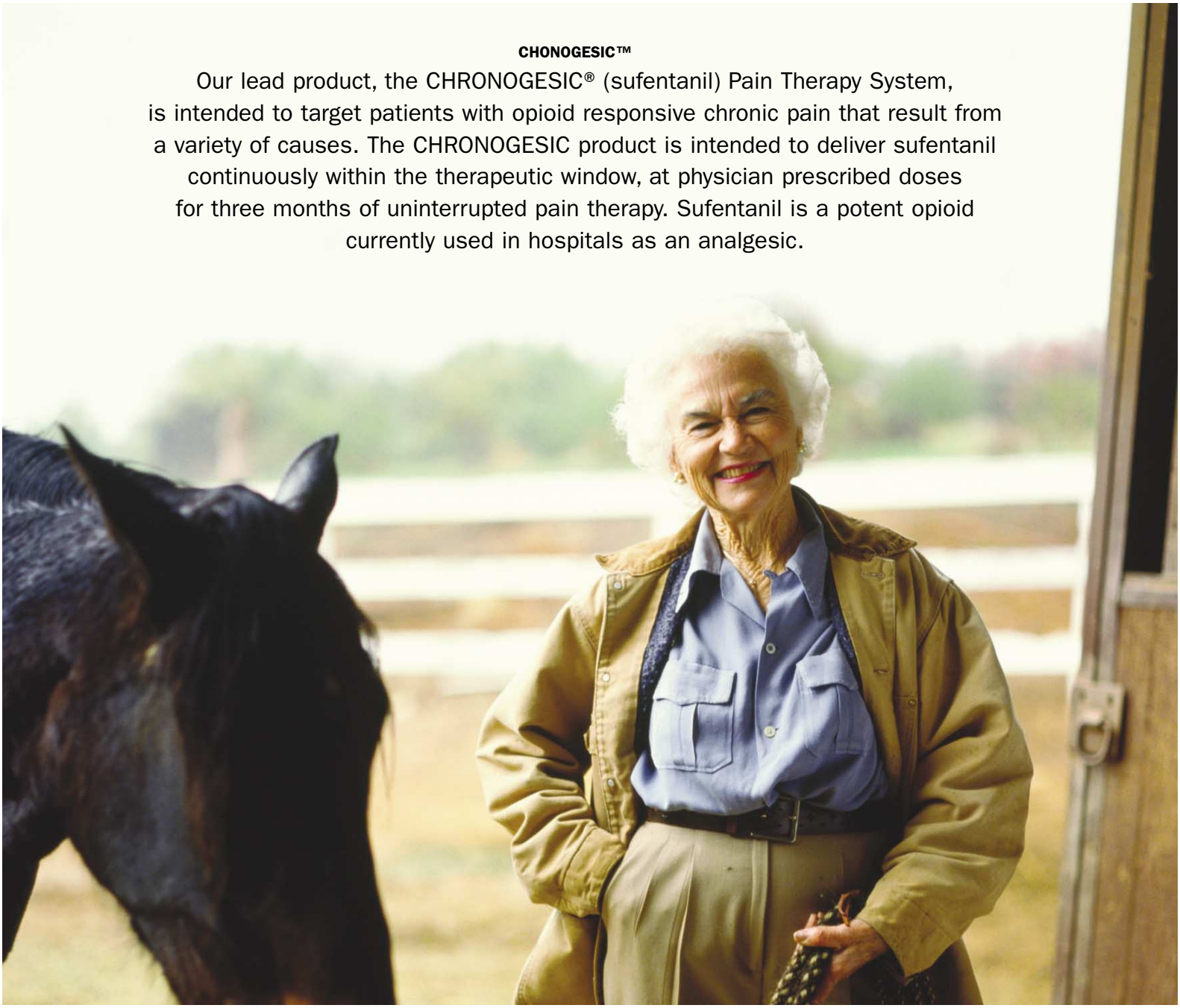
One dose of DURECT's post-operative pain relief product is aimed at providing 72 hours of pain relief, to reduce hospital stays and opioid consumption as well as costs of associated patient care. We believe that by delivering effective amounts of a potent anesthetic to the location from which the pain originates, adequate pain control can be achieved with minimal exposure to the remainder of the body, and hence minimal side effects.

In 2003, we successfully completed a Phase I clinical trial for the product in 12 normal, healthy volunteers at a site located in Europe. We are pleased with the drug release profile over the course of three to four days and the good biocompatibility we have observed with the SABER depot in these subjects. This study increased our confidence in the capabilities of the SABER depot technology, and is very positive for further development of our SABER bupivacaine product. We have studied the formulation parameters and are currently optimizing our formulation to achieve the level of efficacy needed for up to 72 hours of post-operative pain relief.

We believe that there are currently more than 25 million surgical procedures performed annually in the U.S. for which this product would be potentially utilized. We intend to submit our Phase I/IIA protocol to regulatory agencies and begin enrollment in these studies during the fourth quarter of 2004.

CHONOGESIC™

Our lead product, the CHRONOGESIC® (sufentanil) Pain Therapy System, is intended to target patients with opioid responsive chronic pain that result from a variety of causes. The CHRONOGESIC product is intended to deliver sufentanil continuously within the therapeutic window, at physician prescribed doses for three months of uninterrupted pain therapy. Sufentanil is a potent opioid currently used in hospitals as an analgesic.



The CHRONOGESIC product is intended to address the potential problems of peaks (too much medication) and troughs (too little medication) associated with pills and patches. Upon approval for marketing and sale, this product will provide an alternative to current therapies for the treatment of chronic pain, as well as ensure improved patient compliance and convenience. We are currently developing our CHRONOGESIC product for the U.S. and Canadian markets in conjunction with our partner Endo Pharmaceuticals, Inc.

In 2003, we made significant progress in the development of our CHRONOGESIC product to implement some necessary design and manufacturing enhancements. We anticipate that the CHRONOGESIC product will re-enter into the Phase III development program in 2004.

On the commercial side, we believe that CHRONOGESIC is a very attractive product in a large and growing market with sales of opioids for the treatment of chronic pain currently exceeding $3 billion in annual sales. We continue to work closely with Endo Pharmaceuticals for the development of CHRONOGESIC in the U.S. Additionally, we continue to have a significant level of interest in the commercialization rights for the CHRONOGESIC product from international pharmaceutical companies in the pain management market.

SABER® Remoxy

We believe that the SABER technology can be used as the basis for controlled-release oral technology, which can transform short-acting oral capsule dosage forms into controlled release oral products. Oral dosage forms based on the SABER technology may also have the added benefit of being less prone to abuse than other controlled-release dosage forms on the market today.

In 2003, we also progressed our SABER technology for oral controlled delivery. To highlight a significant milestone, in January 2004, our partner Pain Therapeutics, Inc. began Phase I clinical testing of Remoxy™, a novel long-acting oral formulation of oxycodone that utilizes our SABER oral technology.

Remoxy is an oral, long-acting oxycodone capsule that incorporates several abuse-deterrent properties and offers the convenience of twice-a-day dosing. Oxycodone is the active drug ingredient in several oral long-acting products including OxyContin® , a brand name opioid painkiller with annual sales exceeding $1.9 billion. The Phase I study is designed to assess the safety, pharmacokinetics and pharmacological profile of Remoxy against placebo and active drug in healthy volunteers. We have granted to Pain Therapeutics the exclusive right to commercialize Remoxy on a worldwide basis.

We believe that Remoxy may offer reduced abuse potential compared to current long-acting oral dosage forms of oxycodone by making it difficult for the average drug abuser to extract the oxycodone from the Remoxy product. Initial tests also indicate that Remoxy can resist extraction by acids or alcohol for hours at a time by entrapping a majority of the oxycodone inside its proprietary formulation.

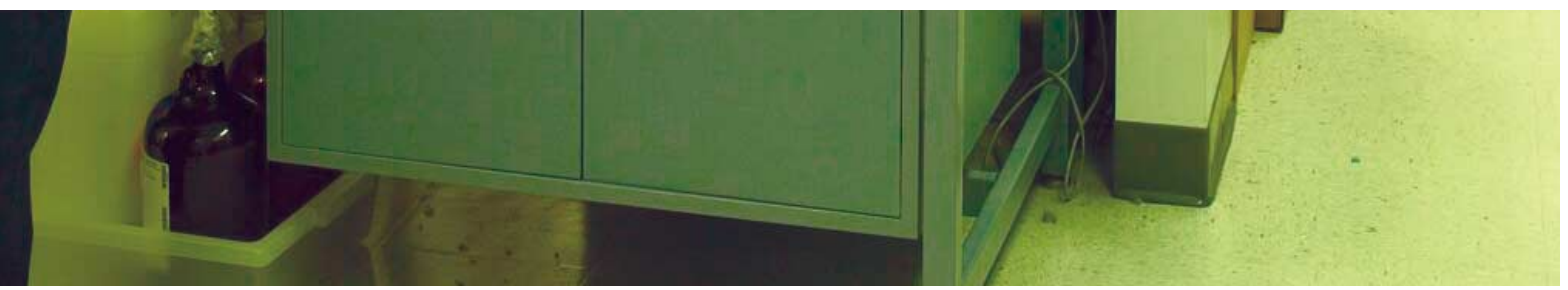
Enabling Biotechnology Products

DURECT Corporation is pioneering the development and commercialization of pharmaceutical systems for the treatment of chronic debilitating diseases and enabling biotechnology based pharmaceutical products. DURECT is developing these pharmaceutical system products based on its solid foundation of four proprietary drug delivery technology platforms: DUROS, SABER, MICRODUR, and DURIN.

Biotechnology medicines based on proteins, peptides and nucleic acids cannot typically be administered in conventional oral dosage forms. DURECT's implantable and injectible technologies allow for the delivery of biotechnology molecules without risking degradation, a current obstacle with the delivery of protein and peptides. In addition to enabling systemic delivery, if advantageous for the therapy, with precise placement of our proprietary catheters or biodegradable drug delivery formulations, we can design our pharmaceutical systems to deliver drugs directly to the intended site of action.

The DUROS® system, a proven and patented drug delivery platform we licensed for specified fields of use from ALZA Corporation (ALZA), a Johnson & Johnson company, is an osmotically driven miniature drug-dispensing pump, which is made out of titanium and can be as small as a wooden matchstick. Once a DUROS system is placed under a patients skin, it can deliver medicine to a specific organ via a catheter or to the body as a whole, for periods of months to one year.

Our patented SABER™ Delivery System is a biodegradable drug delivery platform that can be formulated for systemic or local administration of active agents via the injectible or oral route and is particularly suitable for protein and small molecule delivery. From a single injection, it can achieve up to 3 months delivery of small molecules or 30 days delivery of proteins. We



believe that the SABER™ technology has the potential to make a significant impact in the treatment of chronic debilitating diseases and may enable many biotechnology drugs to reach the marketplace in a superior dosage form.

Our MICRODUR™ technology is a biodegradable microparticulate controlled release injectable, typically designed to deliver drugs for periods of weeks to months. Our DURIN™ technology is a proprietary biodegradable implant that enables parental delivery of drugs from several weeks to six months or more. The DURIN technology can delivery a wide variety of drugs including small and large molecule compounds.

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