XOMA Ltd. ("the Company") is a biopharmaceutical company that discovers, develops, and manufactures antibodies and other recombinant protein biologics for commercialization in therapeutic areas, including immunological and inflammatory disorders, cancer, and infectious diseases. XOMA collaborates with other companies, leveraging its infrastructure to broaden its product pipeline, diversify risk, and share the financial burden of drug development. XOMA receives royalties from RAPTIVA®, a humanized therapeutic monoclonal antibody (MAb) to treat immune system disorders, and LUCENTIS® for wet age-related macular degeneration produced by Genentech, Inc. (DNA-NYSE) under a Bacterial Cell Expression (BCE) technology license from XOMA. RAPTIVA® is the first U.S. Food and Drug Administration (FDA)-approved biologic therapy designed for long-term control of chronic moderate-to-severe plaque psoriasis. In the U.S., Genentech markets RAPTIVA® and LUCENTIS®. Outside of the U.S., Merck Serono S.A. (SRA-NYSE) promotes RAPTIVA® (except in Japan), and Novartis AG (NVS-NYSE) promotes LUCENTIS®. XOMA has a pipeline in most stages of evaluation. Novartis and XOMA have advanced HCD 122, an anti-CD40 MAb to treat B-cell malignancies, into Phase I trials for two oncology indications. XOMA collaborates with Lexicon Genetics, Inc. (LEXG-NASDAQ) to develop a metabolic MAb to treat Type II diabetes and obesity, as well as with Schering-Plough Corp. (SGP-NYSE) and Takeda Pharmaceutical Co. Ltd. for therapeutic MAb discovery and development. Other drugs in development include NEUPREX®, an injectable formulation of rBPI21 (a modified recombinant fragment of human bactericidal/permeability-increasing protein [BPI]). NEUPREX® is in Phase I/II clinical trials in patients undergoing hematopoietic stem cell transplantation (HSCT), and is in or soon to be in investigator-sponsored studies for pediatric open-heart surgery (POHS), burns, and potentially other applications, including biodefense. XOMA’s antibody platform includes proprietary BCE technology, a Human Engineering™ method to create human-like antibodies and, through BCE cross-licenses, access to seven leading phage display antibody discovery libraries. XOMA earns revenues from a second antibody development and production contract with NIAID, as well as through several contract development and manufacturing agreements.

**Recent Financial Data**

<table>
<thead>
<tr>
<th>Ticker (Exchange)</th>
<th>XOMA (NASDAQ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent Price (04/12/07)</td>
<td>$2.98</td>
</tr>
<tr>
<td>52-Week Range</td>
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<tr>
<td>Shares Outstanding*</td>
<td>~130 million</td>
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<tr>
<td>Market Capitalization</td>
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<td>Avg. 3-month Volume</td>
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<td>Insider Owners + 5%</td>
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<tr>
<td>Institutional Owners</td>
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<tr>
<td>EPS (Year ended 12/31/06)</td>
<td>($0.54)</td>
</tr>
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<td>Employees</td>
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</tbody>
</table>

* As of March 5, 2007.

**Key Points**

- XOMA reported year-end 2006 revenues of $29.5 million versus $18.7 million for year-end 2005. The increase was primarily due to revenues from arrangements with the NIAID, increases in royalty revenues from sales of RAPTIVA® and LUCENTIS®, and revenues from XOMA’s new collaboration with Schering-Plough.
- The Company’s net loss was $51.8 million, or ($0.54) per share, for the year ended December 31, 2006, versus net income of $2.8 million, or $0.03 per share, for the year ended December 31, 2005. The 2005 net income included a one-time gain related to a development loan from Genentech.
- In February of 2007, Mr. Jack Castello, chairman of the Board of Directors, president, and chief executive officer of XOMA, announced his plans to retire, but intends to serve during the candidate search and transition period.
- In February of 2007, XOMA and Takeda amended their agreement to increase the potential therapeutic antibody programs under the collaboration. With this expansion, XOMA estimates that the total R&D funding, and upfront, milestone, and other payments could exceed $230 million before royalties over the life of the agreement.
- At December 31, 2006, cash, cash equivalents, and short-term investments were $46.4 million versus $43.5 million at December 31, 2005.

PLEASE REFER TO EXECUTIVE INFORMATIONAL OVERVIEW® (EIO®), JUNE 26, 2006, FOR A FULL COMPANY REPORT.
Year-End 2006 Financial Results

XOMA Ltd. reported financial results for the year ended December 31, 2006, on March 8, 2007. Total revenues in 2006 were $29.5 million versus $18.7 million in 2005. The increase was primarily due to revenues from XOMA’s arrangements with the National Institute of Allergy and Infectious Diseases (NIAID), increases in royalty revenues from sales of Genentech’s RAPTIVA®, new royalty revenues from sales of Genentech’s LUCENTIS®, and revenues from XOMA’s new collaboration with Schering-Plough. License and collaborative fee revenues were $2.8 million in 2006 versus $5.1 million in 2005. Contract and other revenues were $16.3 million in 2006 versus $7.4 million in 2005. The increase in contract and other revenues resulted principally from the Company’s service arrangements with NIAID, AVEO Pharmaceuticals, Inc., Schering-Plough, Cubist Pharmaceuticals, Inc. (CBST-NASDAQ), and Taligen Therapeutics, Inc. Royalties in 2006 were $10.3 million versus $6.2 million in 2005, reflecting growth in RAPTIVA®, sales and commencement of LUCENTIS® sales.

Operating expenses in 2006 were $70.2 million versus $54.7 million in 2005. The increase was chiefly due to increased R&D spending in support of the Company’s programs for XOMA 052 and NEUPREX®, its collaboration with Schering-Plough, and contract development and manufacturing activities with NIAID and Taligen. Increased operating expenses was partially offset by decreased spending on XOMA’s collaboration projects with Novartis, Genentech, and Millennium Pharmaceuticals, Inc. (MLNM-NASDAQ). General and administrative expenses for 2006 were $18.1 million versus $14.8 million in 2005. The $3.3 million increase resulted principally from increased employee-related costs, debt issuance expenses related to XOMA’s February 2006 Convertible Debt, and increased legal, audit, and other consulting fees.

In 2006, R&D expenses were $52.1 million versus $39.9 million in 2005. The $12.2 million increase in 2006 reflects increases in spending on contracts with NIAID, Taligen, and AVEO; development of XOMA 052 and NEUPREX®, and collaborations with Schering-Plough and Lexicon. The increase in R&D expenses was partially offset by decreased spending on agreements with Novartis, Genentech, Apteon Corporation (acquired by Receptor BioLogix, Inc.), and Millennium; development of XOMA 629; and the termination of the Company’s agreement with Cubist.

Interest expense was $12.9 million in 2006 versus $4.3 million in 2005, and essentially consisting of $6.9 million from the revaluation of the embedded derivative on the Company’s Convertible Debt, $3.4 million of interest expense payable, $1.0 million in net amortization of debt issuance costs, discount, and premium on the Convertible Debt, and $1.0 million of interest payable on the Company’s Note with Novartis. Interest expense for 2005 was primarily composed of interest on Convertible Debt.

XOMA’s net loss was $51.8 million, or ($0.54) per share, for the year ended December 31, 2006, versus net income of $2.8 million, or $0.03 per share, for the year ended December 31, 2005. The 2005 net income included a one-time gain for the extinguishment of the Company’s obligation to pay $40.9 million under a development loan from Genentech.

At December 31, 2006, XOMA had $44.5 million of 6.5% Convertible Senior Notes due in 2012, $35.0 million of a five-year term loan facility with Goldman Sachs established in November of 2006, and $16.4 million of long-term debt to Novartis (representing XOMA’s draw down of a $50.0 million loan facility created to assist the Company’s participation in its oncology collaboration with Novartis). After the year-end, Note holders voluntarily converted $42.0 million of these Notes, and on March 7, 2007, XOMA announced that it had elected to convert all of its remaining outstanding Convertible Notes (approximately $2.5 million) into Common Shares pursuant to the terms of the indenture governing the Notes.

At December 31, 2006, cash, cash equivalents, and short-term investments totaled $46.4 million versus $43.5 million at December 31, 2005. The $2.9 million increase reflected cash used in operations of $33.3 million, cash used in the purchase of fixed assets of $8.5 million, and cash transferred to restricted cash of $4.3 million—more than offset by cash provided by financing activities of $48.9 million, which was largely composed of the Company’s term loan financing of $35.0 million and $12.5 million in new Notes issued for cash in the Company’s Convertible Debt exchange. Net cash used in operating activities was $33.3 million in 2006 versus $44.2 million in 2005.
Recent Events

- On March 8, 2007, XOMA announced financial results for the year ended December 31, 2006 (detailed on page 2 of this update) and key events from 2006 and the first two months of 2007. Included within the Company's highlights were the following two events that occurred subsequent to year-end 2006:
  - In January 2007, LUCENTIS® was approved for sale in the European Union. XOMA receives a royalty on worldwide sales of LUCENTIS®, and
  - In early February 2007, Genentech released positive, statistically significant safety and efficacy results of a 12-week Phase IV study of RAPTIVA® in psoriasis of the hands and feet.

- On March 7, 2007, XOMA announced that it had elected to automatically convert all of its remaining outstanding Convertible SNAPS (sm) due in 2012 (approximately $2.5 million) into Common Shares pursuant to the terms of the indenture governing the Notes. In the conversion, the Company expects to issue approximately 1.4 million Common Shares, including roughly 100,000 shares in payment of a portion of the additional interest provided for in the indenture. XOMA intends to pay Note holders a total of approximately $300,000 in cash, in payment of the remaining portion of the additional interest. The automatic conversion took effect on March 27, 2007. All other outstanding Convertible SNAPS (sm) due 2012 had been voluntarily converted by the holders prior to March 7, 2007. After the automatic conversion, XOMA has approximately 131.5 million Common Shares outstanding.

- On February 28, 2007, the Company and Takeda announced an amendment to their existing agreement to increase the number of potential therapeutic antibody programs under the collaboration. With this expansion, XOMA estimates the aggregate R&D funding, and upfront, milestone, and other payments could exceed $230 million before royalties over the life of the agreement. Since entering the original agreement in November of 2006, XOMA has received or is otherwise due approximately $8 million as various collaboration-related payments.

- On February 28, 2007, XOMA announced that pursuant to the terms of its collaboration agreement with Chiron Corp. (subsequently acquired by Novartis AG), the parties' mutual obligations to conduct antibody discovery, development, and commercialization work together on an exclusive basis in oncology have expired. XOMA and Novartis are continuing to jointly develop multiple products, including HCD 122, an anti-CD40, fully human monoclonal antibody (MAb) possessing a novel dual mechanism of action that is currently in two Phase I clinical trials for chronic lymphocytic leukemia (CLL) and multiple myeloma (MM). All other terms of the collaboration remain in effect, including XOMA's access to the original $50 million loan facility.

- On February 26, 2007, Jack Castello, Chairman of the Board of Directors, President, and Chief Executive Officer of XOMA, announced his plans to retire. Mr. Castello, 70, chose to publicize his retirement plans in February to allow adequate time to find the best qualified individual to succeed him and to make the management change as smooth as possible. Mr. Castello intends to continue to serve in his present capacities during the candidate search and a transition period.

- On January 17, 2007, the Company announced that Schering-Plough Corporation exercised its right to initiate additional discovery and development programs under their collaboration for therapeutic antibody products. XOMA received up-front payments for each of the additional collaboration programs and expects to also receive research funding for each project as well as success-based milestones and royalties on the sale of any products that result from the collaboration.

- On January 9, 2007, XOMA announced that it had initiated an open-label, dose-escalating Phase I/II clinical trial of NEUPREX® (opebacan) in adults and children undergoing allogeneic hematopoietic stem cell transplantation (HSCT). XOMA expects to add other sites to the study during 2007.
Company Background

XOMA Ltd. (“the Company”) discovers, develops, and manufactures therapeutic antibodies and other recombinant protein biopharmaceuticals in several therapeutic areas, including immunological and inflammatory disorders, cancer, and infectious diseases. In addition to developing proprietary products, XOMA enters into collaborative product development programs with other companies, leveraging its antibody platform and infrastructure to broaden its product pipeline while diversifying development risk and sharing the financial burden of drug development.

The Company has a royalty interest in two drugs, RAPTIVA® and the recently launched LUCENTIS®, and maintains a pipeline of products in various stages of evaluation. RAPTIVA® is a humanized therapeutic monoclonal antibody (MAb) developed to treat immune system disorders and is the first U.S. Food and Drug Administration (FDA)-approved biologic therapy designed to provide long-term control of chronic moderate-to-severe plaque psoriasis. RAPTIVA® is approved for psoriasis indications in over 50 countries. LUCENTIS® was developed for the treatment of neovascular (wet) age-related macular degeneration and is owned by Genentech. LUCENTIS® was approved by the FDA on June 30, 2006, and by the European Union in January 2007.

In 2004, XOMA announced the formation of a multiple-antibody oncology collaboration with Chiron (now Novartis Vaccines and Diagnostics). In 2005, Chiron and XOMA received clearance from the FDA for the first Investigational New Drug (IND) application for CHIR-12.12 (now HCD 122), an anti-CD40 MAb intended to treat B-cell malignancies, and the start of a Phase I study in chronic lymphocytic leukemia (CLL). In October 2005, Chiron and XOMA announced the commencement of Phase I clinical testing in multiple myeloma (MM) subjects as well. In April 2006, Chiron was acquired by Novartis. XOMA and Novartis are further evaluating HCD 122 for additional B-cell malignancies and other indications, which are in preclinical evaluation.

XOMA collaborates with Lexicon under a multi-target, multi-product arrangement, with the first objective being to develop a MAb to treat metabolic disorders (e.g. Type II diabetes and obesity).

In May 2006, XOMA initiated a collaboration with Schering-Plough, through the Schering-Plough Research Institute (SPRI), for therapeutic MAb discovery and development. Using its extensive collection of phage display libraries and optimization technologies, XOMA can discover therapeutic antibodies against one or more targets selected by SPRI. XOMA may also utilize its proprietary Human Engineering™ technology to humanize antibody candidates generated by hybridoma techniques. Other XOMA activities may include preclinical studies to support regulatory filings, cell line and process development, and production of antibodies for initial clinical trials. The first antibody target has already been accepted into the collaboration.

The Company’s newest collaboration is with Takeda and was commenced in November 2006. Within the collaboration, XOMA is to discover therapeutic antibodies against multiple targets selected by Takeda. Other XOMA activities will likely include preclinical studies to support regulatory filings, cell line and process development, and production of antibodies for initial clinical trials. Takeda is to make upfront and milestone payments to XOMA; fund the Company’s research and development (R&D) activities, including manufacturing the antibodies for preclinical and early clinical supplies; and pay royalties to the Company on sales of products resulting from the collaboration. Payments to XOMA could exceed $230 million before royalties over the life of the collaboration.

XOMA is also developing its own proprietary drugs. One of these is NEUPREX®, an injectable formulation of rBPI21, which is a modified recombinant fragment of human bactericidal permeability-increasing protein (BPI) targeted at pediatric open-heart surgery (POHS), burns, bone marrow/stem cell transplants, meningococcemia, and other applications, including biodefense. The Company is further developing XOMA 629, targeted at treatment of mild-to-moderate acne. After a Phase II trial, XOMA 629 was reformulated to improve skin penetration and antimicrobial activity, and the Company plans to initiate clinical trials again in 2007. XOMA 052 is a potent antibody the Company designed entirely in-house using its Human Engineering™ technology. It may be used against rheumatoid arthritis and osteoarthritis and is expected to enter the clinic in 2007.
XOMA has a history of innovation in therapeutic MAbs, genetically engineered antibodies, and proteins, including Bacterial Cell Expression (BCE) systems and its Human Engineering™ method for creating human-like antibodies. These technologies are used in XOMA’s own development programs, are available for outlicensing, support its development collaborations, and are intended to attract clients for development and manufacturing relationships.

Pipeline

Table 1 provides an overview of the candidates in XOMA’s product development pipeline, followed by brief details on each of these programs. Greater details are provided within the Core Story section of the Company’s June 26, 2006, Executive Informational Overview® (EIO®), pages 18-33.

Table 1
XOMA Ltd.

OVERVIEW OF PRODUCT PIPELINE

<table>
<thead>
<tr>
<th>Marketed Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAPTIVA® for moderate-to-severe plaque psoriasis</td>
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<table>
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<tr>
<th>Clinical Stage Programs</th>
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<tr>
<td>HCD 122 – CLL, MM (Phase I)</td>
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<tr>
<td>rBPI2/NEUPREX® – POHS, burns, bone marrow/stem cell transplant, meningococcemia (EU Orphan approval; Company working toward a marketing application under the Exceptional Circumstances mechanism)</td>
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<table>
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<tr>
<th>Growing Early Stage Pipeline</th>
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<tr>
<td>XOMA 052 Metabolic monoclonal antibody</td>
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<tr>
<td>XOMA 629</td>
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</table>

<table>
<thead>
<tr>
<th>License-Related Products</th>
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</thead>
<tbody>
<tr>
<td>CIMZIA™ (Applied to EMEA for EU approval; BLA filed in U.S.)</td>
</tr>
<tr>
<td>LUCENTIS™ (Approved in the U.S. and European Union)</td>
</tr>
</tbody>
</table>

Source: XOMA Ltd.

**RAPTIVA® (efalizumab)**

Developed in collaboration with Genentech, RAPTIVA® is the first FDA-approved biologic therapy designed to provide continuous control of chronic moderate-to-severe plaque psoriasis, and the first biological treatment for psoriasis authorized for marketing in the European Union. RAPTIVA® inhibits the binding, trafficking, and activation of T-cells, preventing tissue damage that is typical in autoimmune diseases. The antibody can be self-administered by patients in a single, once-weekly subcutaneous injection. This compares favorably to some competitive treatments, which must be administered in a physician’s office.

In clinical studies, RAPTIVA® has demonstrated a rapid and safe onset of action in the reduction of symptoms associated with psoriasis. Furthermore, in February of 2007, Genentech released positive and statistically significant safety and efficacy results of a 12-week Phase IV study of RAPTIVA® in psoriasis of the hands and feet. According to the National Psoriasis Foundation (NPF) 2001 Benchmark Survey on Psoriasis and Psoriatic Arthritis, an estimated 4.5 million U.S. citizens have psoriasis; of these, 1.5 million adults have been diagnosed with a moderate-to-severe form of the disease. The overall cost of treating psoriasis may exceed $3 billion annually.
Genentech markets RAPTIVA® in the U.S. and Merck Serono, Genentech’s international marketing partner for RAPTIVA®, promotes the product in Europe and elsewhere in the world, except Japan. RAPTIVA® has received approval for psoriasis indications in over 50 countries. To accelerate profitability and reduce risk, XOMA restructured its royalty agreement with Genentech from a profit/loss sharing arrangement to one where XOMA receives a royalty on sales of RAPTIVA® for psoriasis and all other marketed indications. Worldwide RAPTIVA® sales were $159.7 million in 2006.

**HCD 122 (formerly CHIR-12.12)**

HCD 122 is a fully human antagonist antibody that targets the CD40 antigen and is the first drug candidate to enter clinical testing under the collaborative agreement between Novartis and XOMA for the development and commercialization of antibody products to treat cancer. HCD 122’s dual mechanism of action—blocking tumor cell growth and survival signals and recruiting immune effector cells to kill tumor cells—makes HCD 122 a promising drug candidate for the treatment of B-cell malignancies.

Open-label Phase I studies of HCD 122 designed to evaluate the safety, dose tolerability, and pharmacokinetic profile of HCD 122 in patients with advanced CLL and MM are ongoing. According to the American Cancer Society (ACS), approximately 15,340 new cases of CLL and about 19,900 new cases of MM are expected in the U.S. during 2007. XOMA and Novartis are also evaluating the possible use of HCD 122 in clinical trials for other oncology and non-oncology indications, and the Company expects to expand the clinical development of HCD 122 with additional indications in 2007.

**NEUPREX® (opebacan)**

NEUPREX® is an injectable formulation of rBPI21, a modified recombinant fragment of human BPI. BPI is a human host-defense protein made by a type of white blood cell, which is important in the body’s defenses against microbial infection. XOMA has tested NEUPREX® in human clinical trials for several infectious and inflammatory conditions, with more than 1,500 patients in the safety database.

In March of 2006, XOMA began an investigator-sponsored trial (IST) of NEUPREX® at the Southwestern Medical Center in Dallas for patients with severe burns. In July, the first patient was dosed in this trial. This IST joins with another IST initiated in October of 2003 for POHS patients. In September of 2006, the European Medicines Agency (EMEA) granted NEUPREX® orphan medicinal product designation in meningococcal sepsis, a potentially life-threatening bacterial infection predominantly affecting young children. XOMA expects to complete its regulatory assessment of NEUPREX® under the EMEA Exceptional Circumstances mechanism during the first half of 2007, and intends to base its planned application on existing Phase III clinical trial data.

**Phase I/II Clinical Trial of NEUPREX®**

In January of 2007, in conjunction with the Harvard Medical School, XOMA initiated a Phase I/II clinical trial of NEUPREX® in adults and children undergoing hematopoietic stem cell transplantation (HSCT) to evaluate the product’s safety and role in improving endotoxin-induced complications. XOMA anticipates adding other sites to the study and concluding the trial during 2007. Thereafter, the Company will likely evaluate options for conducting additional studies. Success in these HSCT trials may also be relevant to NEUPREX®’s potential use in acute radiation syndrome as part of the U.S. government’s biodefense efforts.

**XOMA 052**

XOMA 052 is a high-affinity MAb that may enable infrequent dosing through a long-lasting effect. This product targets a particular pathophysiological process that could result in potential therapeutic benefits in diseases such as rheumatoid arthritis, osteoarthritis, and other inflammatory conditions; however, less frequent dosing could provide XOMA with a significant marketing and production cost advantage if this product reaches the market. The Company plans to file an IND and initiate trials of XOMA 052 in 2007.
**Metabolic monoclonal antibody (MAb)**

Lexicon and XOMA are collaborating to jointly develop and commercialize antibody drugs for certain targets discovered by Lexicon, with a goal of initiating clinical studies on three molecules within three years. The collaboration combines Lexicon’s biotherapeutics target discovery capabilities with XOMA’s antibody generation, process development, and manufacturing expertise to accelerate the development and commercialization of novel therapeutic antibodies. During the three-year, three-target initial term, Lexicon intends to select targets for submission from among those discovered and analyzed in its Genome5000™ Program. In this program, Lexicon is using its gene knockout technology to discover the physiological functions of 5,000 potential drug targets.

**XOMA 629**

On September 7, 2006, XOMA announced successful results with a research formulation of XOMA 629, the Company’s drug for mild-to-moderate acne. The drug had previously been in Phase II clinical trials, and XOMA is currently conducting preclinical studies to optimize the reformulated product. The Company’s goal is to amend its IND application and initiate Phase I clinical trials in 2007.

**ING-1**

ING-1 is a Human Engineered™ MAb developed by XOMA to specifically target tumor cells in adenocarcinoma patients. ING-1 antibodies bind with high affinity to the Ep-CAM antigen and recruit host immune cells to kill the cancer cell. XOMA has completed three Phase I clinical studies of ING-1 that tested both intravenous and subcutaneous formulations in patients with advanced or refractory adenocarcinomas.

In October of 2004, XOMA entered into an agreement with Triton BioSystems, Inc., under which Triton has in licensed the exclusive worldwide right to use the ING-1 MAb with its Targeted Nano-Therapeutics™ (TNT™) System. The TNT™ System ablates tumors by using tiny magnetic spheres systemically delivered to the tumor with antibodies and heated by means of a magnetic field directed to the tumor. The combination of the ING-1 antibody with the TNT™ System is intended to create a novel, highly selective, safe, and effective treatment for adenocarcinomas, such as breast, colorectal, lung, ovary, and prostate. ING-1 remains available for licensing outside the field covered by the Triton license.

**Collaborations with Schering-Plough and Takeda**

In 2006, the Company initiated collaborations with Schering-Plough and Takeda against undisclosed targets. XOMA’s collaboration with Schering-Plough was expanded to include additional disease targets in January of 2007, and the Company estimates that it could receive more than $75 million before royalties over the life of the agreement in aggregate upfront, R&D funding, and milestone and other payments. Further, in February of 2007, XOMA’s collaboration with Takeda was expanded to include additional disease targets in oncology, potentially providing XOMA with more than $230 million before royalties over the life of this agreement.

**Technology Platform**

In the 26 years since its founding in 1981, XOMA has developed a substantial discovery and development platform for therapeutic antibodies. This platform rests on three principal technologies: BCE, Human Engineering™, and antibody phage display technology.

**Bacterial Cell Expression (BCE) Technology**

XOMA’s BCE technology provides efficient, high-level expression of recombinant proteins in *E. coli*. Components include an expression vector containing the araB promoter, a companion plasmid containing the pelB secretion sequence, and a proprietary production strain. Also included are scale-up and production protocols. XOMA’s BCE technology has been widely accepted by and licensed to pharmaceutical and biotechnology companies alike because it offers a number of important features, as bulleted on page 8.
Tight control of gene expression and strong induction from the araB promoter. Proteins may be produced at high levels, including toxic or growth-inhibiting proteins.

Optional secretion feature. The pelB leader sequence may be used to direct fully functional, properly folded proteins into the periplasmic space or culture medium for simplified product recovery and purification.

Optimal production. XOMA’s proprietary host strain and culture medium were developed specifically for use with the araB expression vector for maximal yield of recombinant product.

The first marketed therapeutic product manufactured under a license using XOMA’s BCE technology is LUCENTIS® for the treatment of neovascular (wet) age-related macular degeneration. LUCENTIS®, owned by Genentech, was approved by the FDA on June 30, 2006, and by the European Union in January 2007. The product is distributed by Novartis in Europe. XOMA earns royalties on worldwide sales of LUCENTIS®, which were $407.0 million for 2006. The Company expects the next such product to be CIMZIA™, owned by UCB S.A. (UCBJF.PK-OTC). CIMZIA™ is expected to receive marketing approval for Crohn’s disease in late 2007 or 2008. CIMZIA™ is also currently in late Phase III trials for rheumatoid arthritis.

Human Engineering™ Technology

XOMA’s Human Engineering™ technology offers two important advantages: (1) preserved antibody function and (2) low potential for immunogenicity. XOMA has Human Engineered™ numerous murine antibodies while consistently preserving antibody affinity. These data demonstrate that there is no difference in binding affinity between this chimeric and Human Engineered™ antibody pair. These results are typical of those seen with several Human Engineered™ antibodies. Also, important antibody functions, such as antibody-dependent cellular cytotoxicity (ADCC) and complement dependent cytosis (CDC), are retained in the Human Engineered™ antibody.

XOMA has used its Human Engineering™ technology with ING-1 (described on page 7), a MAb to the epithelial cell adhesion molecule, Ep-CAM. In three Phase I clinical trials, XOMA demonstrated that Human Engineered™ ING-1 had no detectable immunogenicity in the vast majority of patients as determined by a sensitive assay. The incidence of an immune response to ING-1 was both low and similar to that reported for other humanized antibodies.

XOMA launched a new line of business in 2006 based on its Human Engineering™ technology with the announcement of its agreement with AVEO to humanize AV-299, an antibody being developed against a cancer target. Previously, XOMA had used Human Engineering™ only for its own and for partnered development programs. The Company has received upfront payments, milestones, and royalties from AVEO. XOMA has also completed a $6 million follow-on contract with AVEO for the production of clinical trial quantities of AV-299.

In October of 2006, XOMA announced a Human Engineering™ agreement with Attenuon, LLC—XOMA’s second such agreement since launching its Human Engineering™ business line.
**Antibody Phage Display Technology**

A bacteriophage (or phage) is a virus that is able to infect and replicate in bacteria. Phage can be engineered to express antibody fragments in the bacteria they infect, which then are displayed on the surface of the phage produced in the bacterial cell. A large collection of recombinant phage (1 to 10 billion), each displaying a single and unique antibody fragment, embodies an antibody phage display library. The development of phage display libraries has enabled the rapid *in vitro* identification of antibody products directed against molecular targets.

An important aspect of antibody phage display is the linkage between genotype and phenotype. Selection of phage clones is based on binding affinity, specificity, and functional activity of the displayed antibody (phenotype). Since each phage carries the deoxyribonucleic acid (DNA) for the antibody it displays on its surface, the phenotype is directly linked to the antibody genotype (cDNA sequence). This feature allows for rapid intellectual property filing on the sequence of the antibody as well as the immediate ability to engineer the sequence into the antibody product type of choice.

XOMA has access to a unique and comprehensive collection of the leading commercial antibody phage display libraries and related antibody technologies. Acquired through strategic cross-licensing of the Company’s BCE technology, this collection benefits the Company through an increased probability of success and shorter development timelines. For its development partners, XOMA represents a single point of access to this umbrella of technologies, delivering the same benefits and minimizing the time and cost of entry into the antibody product marketplace. Table 2 (page 10) displays the proprietary phage display libraries and rights which XOMA has access to and the ancillary antibody technologies and rights XOMA may utilize.

Each antibody phage display library contains a large and unique repertoire of antibodies. A benefit of having access to multiple libraries is the increased probability of technical success in finding a high-affinity antibody to the target of interest while minimizing development time through screening libraries in parallel. Another benefit of multiple libraries is the ability to select an exclusive or nonexclusive library for antibody discovery to the target of interest. With this collection of libraries, an efficient lead identification process, and an experienced scientific staff, the Company has the ability to rapidly identify therapeutic antibodies with desired properties, potentially shortening time to IND filing and clinical evaluation.
<table>
<thead>
<tr>
<th>Technology</th>
<th>Company</th>
<th>Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antibody Phage Display Libraries</td>
<td>Affimed Therapeutics AG</td>
<td>Right to use Affimed materials and license to Little patent portfolio</td>
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<tr>
<td></td>
<td>Affitech, Inc.</td>
<td>Right to use Affitech Ab phage display library and license to Breitling</td>
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<td>Biolnvent International AB (Beckman Coulter)</td>
<td>Right to use n-CoDeR® library</td>
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<td></td>
<td>Biosite Inc. (BSTE-NASDAQ)</td>
<td>License to Dower patent portfolio</td>
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<td>Cambridge Antibody Technology Limited</td>
<td>Right to use CAT Ab phage display libraries</td>
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<td>Dyax Corp. (DYAX-NASDAQ)</td>
<td>Right to use Dyax Ab phage display library and license to Ladner patent</td>
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<td>MorphoSys AG</td>
<td>Right to use MorphoSys Ab phage display library (HuCAL® GOLD)</td>
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<td>XOMA</td>
<td>In-house custom patent-derived phage display libraries</td>
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<td>Antibody Engineering and Optimization</td>
<td>Applied Molecular Evolution, Inc.</td>
<td>Access to optimization technology</td>
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<td>(Eli Lilly and Company)</td>
<td>Access to discovery and molecular evolution technologies</td>
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<td></td>
<td>DIVERSA Corporation (DVSA-NASDAQ)</td>
<td>In-house technology to humanize antibody sequences</td>
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<td>XOMA—Human Engineering™</td>
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<td>Antibody Manufacturing</td>
<td>Genentech, Inc.</td>
<td>Access to antibody related expression patents (Cabilly)</td>
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<td>Micromet AG (MITI-NASDAQ)/Enzon, Inc.</td>
<td>Rights to single chain antibody expression</td>
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<td></td>
<td>XOMA</td>
<td>In-house proprietary technology for bacterial and mammalian expression</td>
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</table>

1 Some restrictions may apply.

Source: XOMA Ltd.
Business Strategy

Throughout its history, XOMA has emphasized collaborative relationships as a core element of its business strategy. This is demonstrated in programs such as its partnership with Genentech to develop RAPTIVA®. The Company’s collaborative development model is flexible, addressing its collaborators’ development, manufacturing, and financial constraints, and enabling them to accelerate the development of identified product candidates as well as expand product pipelines. This affords drug candidates the potential to move from discovery to market in a more expeditious manner than the traditional industry average. A depiction of XOMA’s business model is provided in Figure 2.

Headquarters and Employees

Founded in 1981, XOMA is headquartered in Berkeley, California, with development and manufacturing facilities also in Berkeley. The Company leases approximately 143,000 square feet of space, which includes R&D laboratories, production, production-support facilities, and office space. In March of 2007, XOMA expanded its Berkeley facilities by 8,000 square feet. The Company also owns a separate 17,000 square foot technology development and pilot facility. XOMA currently employs approximately 255 professionals at its California facilities, principally in Berkeley, California.
Key Points to Consider

- XOMA generates revenues from multiple sources: royalties, contract manufacturing and development, collaborations, and technology licensing.

- RAPTIVA® presently represents a significant source of royalty revenues to the Company and is the first FDA-approved biologic therapy designed to provide long-term control of chronic moderate-to-severe plaque psoriasis. Genentech markets RAPTIVA® in the U.S. and Merck Serono, Genentech’s international marketing partner for RAPTIVA®, promotes the drug outside of the U.S. (except Japan).

- Through a combination of royalties from RAPTIVA® and now from LUCENTIS®, revenues from development and manufacturing relationships, licensing revenues, collaboration fees, and other sources, XOMA expects that it has sufficient cash resources to meet its anticipated net cash needs through at least 2008.

- In addition to developing proprietary products, XOMA enters into collaborative product development programs with other companies and research institutions. This strategy helps to leverage its development infrastructure to broaden its product pipeline while diversifying development risk and sharing the financial burden of drug development. XOMA has ongoing collaboration agreements with a variety of companies and organizations, including Lexicon, Novartis, Schering-Plough, and Takeda.

- XOMA generates revenue through contract manufacturing, where the bulk of value comes from the technical development skills XOMA brings to its clients. Production capacity includes the pilot plant as well as a current Good Manufacturing Practices (cGMP) manufacturing plant—both enabling the Company to achieve at least $20 million to $25 million in external revenue from this source. These facilities are also used to do proprietary product work as well as work for its collaborations. For example, in XOMA’s collaboration with Novartis, XOMA is responsible for manufacturing through Phase II, where the costs are charged to the collaboration, and Novartis pays for 70% of the costs.

- Early in its collaborations, XOMA tends to do the majority of the work. In the Novartis and Lexicon projects, respectively, XOMA is responsible for 30% to 35% of the costs. Based on this structure, each quarter there is a settlement, which shows a net reduction to R&D spending. This provides XOMA funding for the difference, as XOMA does more of the work with infrastructure (thus they are not add-on costs). Additionally, the Chiron/Novartis collaboration brings in financial resources, in the form of a $10 million upfront payment and a $50 million credit line, which XOMA can use to fund up to 75% of XOMA’s 30% cost of development.

- XOMA licenses its proprietary technologies relating to BCE of recombinant pharmaceutical products, as well as its Human Engineering™ technology. Human Engineering™ allows for modification of any non-human MAb to reduce or eliminate detectable immunogenicity in humans. XOMA uses this in its products, as well as offers it to other biotechnology and pharmaceutical companies. More than 45 BCE licenses have been granted to pharmaceutical, biotechnology, and research organizations. XOMA has ongoing license agreements with Merck & Co., Inc. (MRK-NYSE), Wyeth Pharmaceuticals (WYE-NYSE), Genentech, UCB, and others.

- XOMA launched a new line of business in 2006 based on its Human Engineering™ technology with the announcement of its agreement with AVEO to humanize AV-299, an antibody being developed against a cancer target. Previously, XOMA had used Human Engineering™ only for its own and for partnered development programs. XOMA has received upfront payments, milestones, and royalties from AVEO and has begun work on a follow-on contract with AVEO to manufacture clinical trial quantities of the AVEO antibody. In October of 2006, XOMA announced a second Human Engineering™ development agreement with Attenuon.

- XOMA entered into an agreement with Taligen Corporation for the development of a novel antibody fragment for the potential treatment of inflammatory diseases. The Company is utilizing its BCE technology to develop and scale-up production processes for Taligen’s FAb antibody fragment. XOMA also is to manufacture quantities of the antibody fragment to support preclinical and initial clinical trials.
An additional antibody product in late-stage clinical testing being manufactured using XOMA’s BCE technologies is UCB’s CIMZIA™ (certolizumab pegol, CDP-870) anti-TNF alpha antibody fragment, in development for rheumatoid arthritis and Crohn’s disease. Upon approval and sales of CIMZIA™, XOMA is to receive additional royalty revenues beyond RAPTIVA® and LUCENTIS®.

Lexicon is one of the leading companies involved with in vivo target discovery and validation. XOMA is looking to Lexicon to supply it with validated targets outside of oncology. Lexicon is obligated to bring to XOMA several targets over the course of the three-year term of the relationship, and XOMA, at its discretion, has the option of whether to accept these targets or not.

XOMA has an experienced management team with a disciplined approach and a focus on execution.

At December 31, 2006, cash, cash equivalents, and short-term investments totaled $46.4 million versus $43.5 million at December 31, 2005.

- XOMA’s cash position has been supplemented by a $35 million, five-year, non-dilutive term loan completed on November 9, 2006. The loan bears interest at an annual rate equal to six-month LIBOR plus 5.25% and is secured by all rights to receive payments due XOMA relating to RAPTIVA®, LUCENTIS®, and CIMZIA™. Payments received by XOMA in respect of these rights are expected to be used to make semi-annual interest payments under the facility, and amounts in excess of interest requirements may be used to pay down principal at the discretion of the lender. Proceeds will likely be used for general corporate purposes. This financing is not dilutive to shareholders, and XOMA remains the owner of these royalty streams, subject to the pledge.
Risks

Some of the information in this quarterly update relates to future events or future business and financial performance. Such statements can only be predictions and the actual events or results may differ from those discussed due to the risks described in XOMA’s statements on Forms 10-K, 10-Q, 8-K, as well as other forms filed from time to time. The content of this update with respect to XOMA has been compiled primarily from information available to the public released by XOMA through news releases, Annual Reports, and Securities and Exchange Commission (SEC) filings. XOMA is solely responsible for the accuracy of this information. Information as to other companies has been prepared from publicly available information and has not been independently verified by XOMA. Certain summaries of activities have been condensed to aid the reader in gaining a general understanding. For more complete information about XOMA, please refer to the Company’s website at www.xoma.com. Additionally, please refer to Crystal Research Associates’ base report, the Executive Informational Overview® (EIO®) dated June 26, 2006, and located on Crystal Research Associates’ website at www.crystalra.com for more comprehensive details of XOMA’s risk factors.
Legal Notes and Disclosures: This report has been prepared by XOMA Ltd. ("the Company") with the assistance of Crystal Research Associates, LLC ("CRA") based upon information provided by the Company. CRA has not independently verified such information. In addition, CRA has been compensated by the Company in cash of thirty-five thousand dollars for its services in creating the Executive Informational Overview® (EIO®), for updates, and for printing costs. Principals in CRA own shares of XOMA Common Stock, which were purchased in the open market.

Some of the information in this report relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. Such statements can be only predictions and the actual events or results may differ from those discussed due to, among other things, the risks described in XOMA’s reports on Forms 10-K, 10-Q, 8-K, and other forms filed with the Securities and Exchange Commission (SEC) from time to time. The content of this report with respect to XOMA has been compiled primarily from information available to the public released by XOMA. XOMA is solely responsible for the accuracy of that information. Information as to other companies has been prepared from publicly available information and has not been independently verified by XOMA or CRA. Certain summaries of scientific activities and outcomes have been condensed to aid the reader in gaining a general understanding. For more complete information about XOMA, the reader is directed to the Company’s website at www.xoma.com. This report is published solely for information purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state. Past performance does not guarantee future performance. Free additional information about XOMA, and its public filings, as well as free copies of this report can be obtained in either a paper or electronic format by calling (510) 204-7200.