



Nortech Systems

POSITIONED FOR GROWTH



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Nortech Systems Incorporated is a full-service electronics manufacturing services (EMS) provider of wire and cable assemblies, printed circuit board assemblies, higher-level assemblies and box builds for a wide range of industries. Markets served include medical, automotive, defense, computer, commercial, recreational, government and consumer.

Headquartered in Wayzata, Minnesota, the company has manufacturing facilities in Baxter, Bemidji, Blue Earth, Fairmont and Merrifield, Minnesota; Augusta, Wisconsin; and Monterrey, Mexico.

Nortech Systems is traded on the Nasdaq Stock Market under the symbol NSYS and appears in most stock listings as "NorSys."

VISION

"To be the best"

OUR PURPOSE

To be the preferred electronics manufacturing services provider that builds long-term relationships and creates value-added solutions.

OUR VALUES

- Respect
- Customer-Focused
- Committed to Success
- Sense of Urgency
- Great Communication
- No One Does It Alone



To Our Shareholders

Nortech Systems made significant, measurable progress in many areas during 2005. We reported a record year in sales, with strong improvements in operating earnings and net income. Our strategic initiatives strengthened our balance sheet, improved our infrastructure and enhanced and expanded our customer relationships. As a result, I believe we are better positioned for growth today than at any time in our history. We are targeting the right markets, with the right resources and the right strategy:

- Build market share;
- Exceed customer expectations;
- Continue to improve our efficiency;
- Focus on the highest growth portions of our market.

Our goal is to drive growth that exceeds the EMS industry segments in which we operate. These 2005 results reflect the improving conditions in the EMS industry, and particularly in our business. We are experiencing positive trends across all the core markets we serve: medical, industrial, transportation and aerospace/defense. These core markets accounted for more than 90 percent of our 2005 revenue.



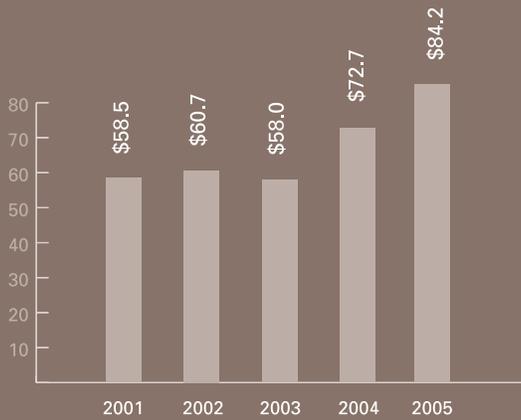
Looking Back on 2005

For the 2005 fiscal year, we reported a 16 percent increase in net sales, to \$84.2 million. Our operating income rose 59 percent to \$2.1 million and our net income increased 58 percent to \$929,000, or \$0.36 per diluted common share.

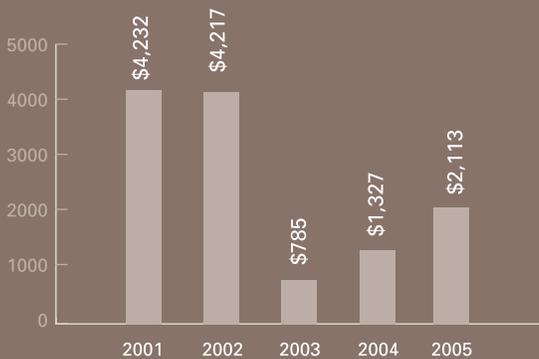
Revenue growth was again led by our Aerospace Systems division, which is benefiting from increased defense spending. Divisional revenue rose \$7.0 million during 2005, a 36 percent increase from 2004 levels.

Our electronic assembly division saw revenues climb \$5.0 million — or 22 percent — and growth has been particularly strong in the transportation market. In September 2005 we announced additional business from General Electric — supplying components to GE Rail for the LocoCAM™ video camera system.

In Mexico, revenue for our commercial wire and cable operations increased by \$2.2 million — or 45 percent — over 2004 levels. Our domestic wire and cable business decreased by nine percent, due to intense competition and cost pressures, including rising material costs.



REVENUE (MILLIONS)



OPERATING INCOME (THOUSANDS)



NET INCOME (THOUSANDS)



EQUITY (THOUSANDS)

Our operating activities generated \$5.1 million of cash flow during fiscal 2005, boosted by the implementation of a receivables discount program with a large customer and negotiating terms and conditions with key suppliers to improve our cash-to-cash cycle.

An Improving Industry

According to the most recent semi-annual survey of 15 to 20 smaller EMS companies by R.W. Baird in Milwaukee, overall EMS industry trends appear positive with growth expected to come from incremental outsourcing as well as a pickup in several end markets, including industrial, telecom and medical.

The survey also found that 81 percent of participants classified the tone of their business as better than in June 2005, with the remainder saying the tone of business was unchanged. More importantly, 94 percent of participants expected business to improve over the next six months.

We agree with the general optimistic outlook of these findings.

Technology Forecasters, an EMS industry analyst firm, has predicted a compound annual growth rate in global EMS revenue of more than 11 percent through 2009. Some of our key industry segments are expected to see even higher growth rates.

By the end of 2009, it's estimated that electronics outsourcing will have penetrated only one-fourth of the total available global market, which means strong opportunity still exists for winning new business.

Our Vantage Point

In today's competitive global economy, we are pleased to be winning new business — both new business on new programs and also new accounts previously served by our competitors.

Customers are looking to us earlier, relying on our expertise to help them better focus on their core capabilities. We're strengthening our partnerships, starting with engineering design support all the way through to managing supply chains, inventory and logistics. This includes our three-tier manufacturing strategy with production capabilities in the U.S., Mexico and China.

To handle increased production demands for our Aerospace Systems business and position ourselves for continued growth, we took steps during 2005 to increase our manufacturing capacity. In January 2006 we signed a purchase agreement for a 140,000-square-foot plant in Blue Earth, Minnesota, a neighboring community to our existing operations in Fairmont. Until the sale closes, which is expected at the end of June, we are leasing space and have already started production at this location.

We are implementing training procedures and installing new capital equipment to ensure we help our customers satisfy new environmental mandates from the European Union. Effective July 2006, EU regulations limit the use of hazardous materials in electronics manufacturing. Like our successful ISO 9001 international quality effort, this environmental program validates our commitment to serving our customers in a global marketplace.

Navigating the Future

Our steadfast commitment to following our successful course, coupled with the favorable trends in the EMS industry, give us optimism for continued profitability increases and growth that will exceed the industry average — an accomplishment that wouldn't be possible without the dedication and hard work of all our employees.

We're fully resolved to executing our corporate initiatives and individual responsibilities, whatever the global business landscape. And it's a joint effort — every member of the Nortech Systems team is focused on delivering positive results, whatever challenges may arise. Thank you for your continued support!

Sincerely,



Michael J. Degen
President & Chief Executive Officer

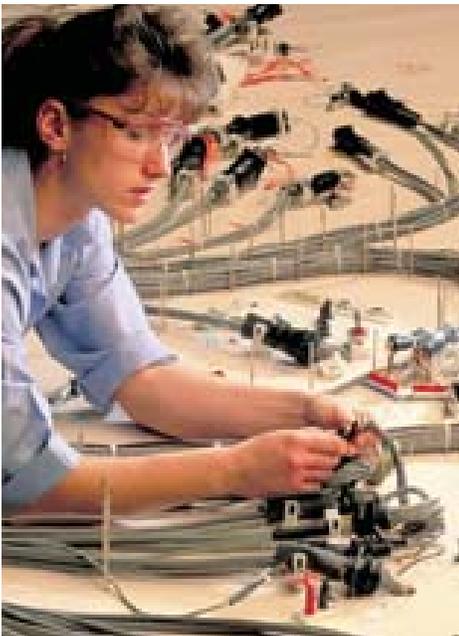


WHY IS NORTECH SYSTEMS POSITIONED FOR GROWTH?



POSITIVE SALES, EARNINGS MOMENTUM

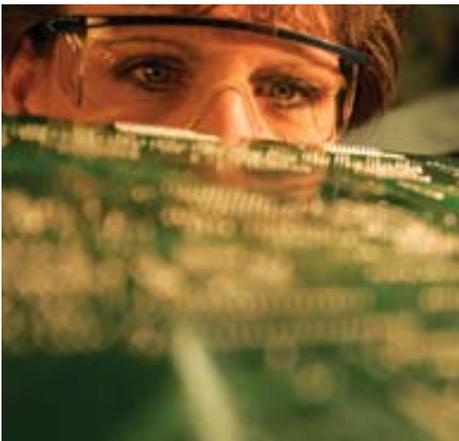
We are growing our business profitably — from the top line to the bottom line — by improving our service offering, carefully controlling costs and expertly managing the supply chain. Across a range of industries, both new and existing customers are recognizing the outstanding value we provide as a trusted partner in their success.



INITIATIVE: SELLING PROGRAM MANAGEMENT SERVICES

We are successfully promoting our full-service, value-added capabilities for managing new program and product introductions. For example, our engineers are leading a cable design team for a new piece of medical diagnostic equipment. Customers are looking to us earlier, relying on our expertise so they can better focus on their core capabilities.

RESULTS:
Broader penetration of existing customers;
Better identification of prospective customers who value our complete service offering;
Stronger customer partnerships based on the total value we provide, not simply lowest price.



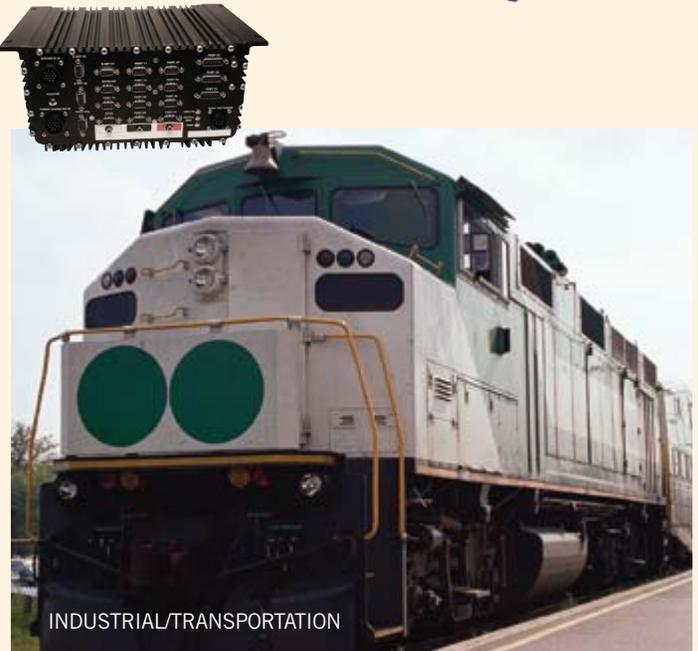
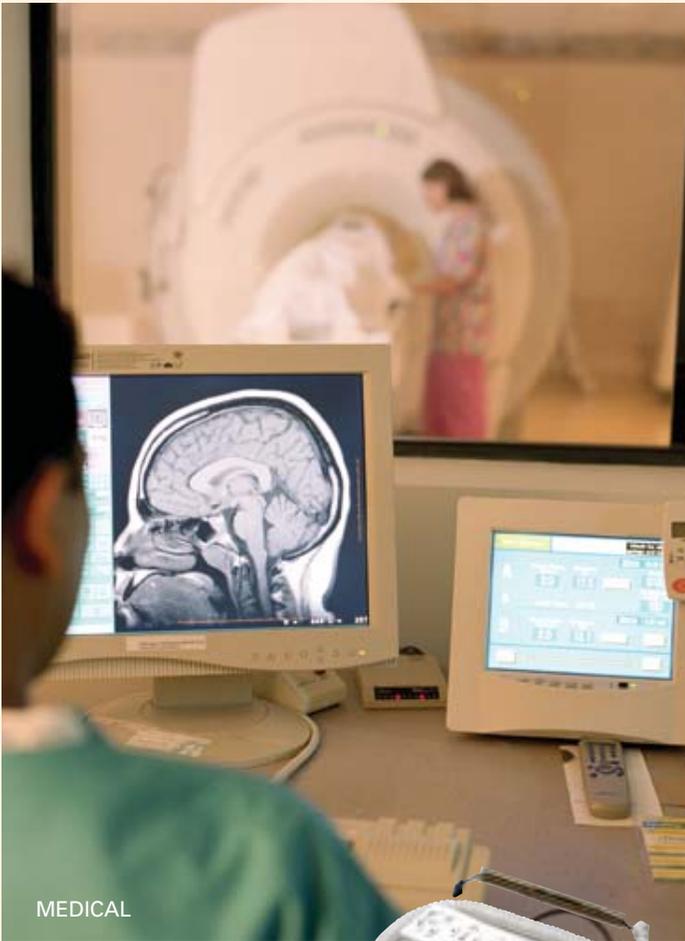
INITIATIVE: CONSOLIDATING VENDORS

Under a pilot program at our Mexico facility, we began a vendor-consolidation effort aimed at reducing costs and increasing responsiveness. Approximately 80 percent our purchase dollars have been consolidated with four suppliers that have warehouses within blocks of our Monterrey plant. They deliver consigned inventory bi-weekly, based on our customer forecast. This consolidation effort will be extended to all domestic Nortech locations starting in 2006.

RESULTS:
Improved inventory turns and cash flow;
Reduced raw material inventory dollars in Mexico by 24 percent; Increased customer satisfaction.

STRENGTH FROM MARKET DIVERSITY

Because we serve original equipment manufacturers (OEMs) in a wide range of markets, we are better able to maintain our positive growth momentum even in challenging economic conditions. Our three key markets are shown below, along with three representative products we have manufactured to meet OEM specifications.



WHY IS NORTECH SYSTEMS POSITIONED FOR GROWTH?

STRENGTHENED INFRASTRUCTURE

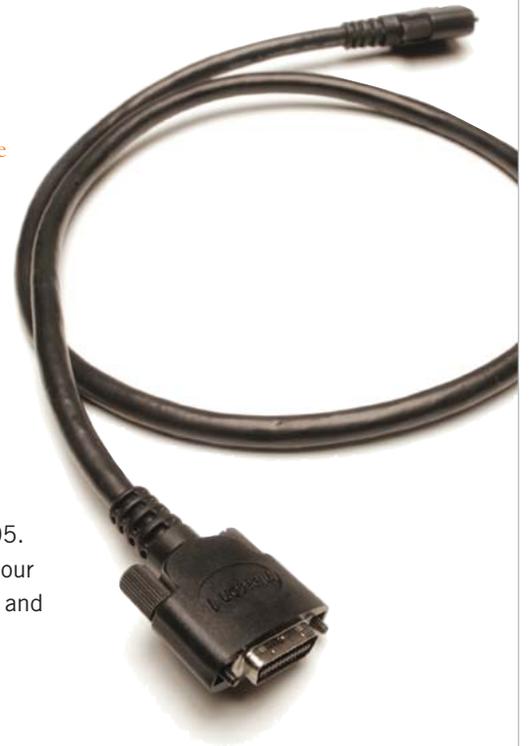
Leveraging all our resources — personnel, plants and capabilities — enables us to better serve our customers' needs while optimizing our corporate performance. The dynamic EMS industry requires our constant innovation and streamlining. We are meeting evolving market demands while complying with the latest international quality and regulatory standards.

INITIATIVE:**STREAMLINING COMMERCIAL WIRE OPERATIONS**

Our commercial wire operations in Mexico and Bemidji, Minn., were consolidated in 2005. Both now report to the same general manager and we're in the process of streamlining our design engineering, quoting and customer service capabilities. Duplication of efforts and overhead will be eliminated.

RESULTS:

Heightened focus on key capabilities; Reduced costs; Improved customer satisfaction.



EXPANDING AEROSPACE SYSTEMS' CAPACITY

In 2005, both our Bemidji and Augusta, Wis., facilities began absorbing work from our Aerospace Systems division, to help meet growing demand and to better utilize their production capacity. Our Augusta site now focuses primarily on production for Aerospace Systems and our Intercon 1 division.

In January 2006, we signed a purchase agreement for a 140,000-square-foot manufacturing facility in Blue Earth, Minn., just 20 miles east of existing Aerospace Systems' facilities. The sale is scheduled to close by mid-year. This new building will provide much-needed space to better capitalize on our growth opportunities and further improve operating leverage.

DIVERSIFYING REPAIR/TEST FACILITY

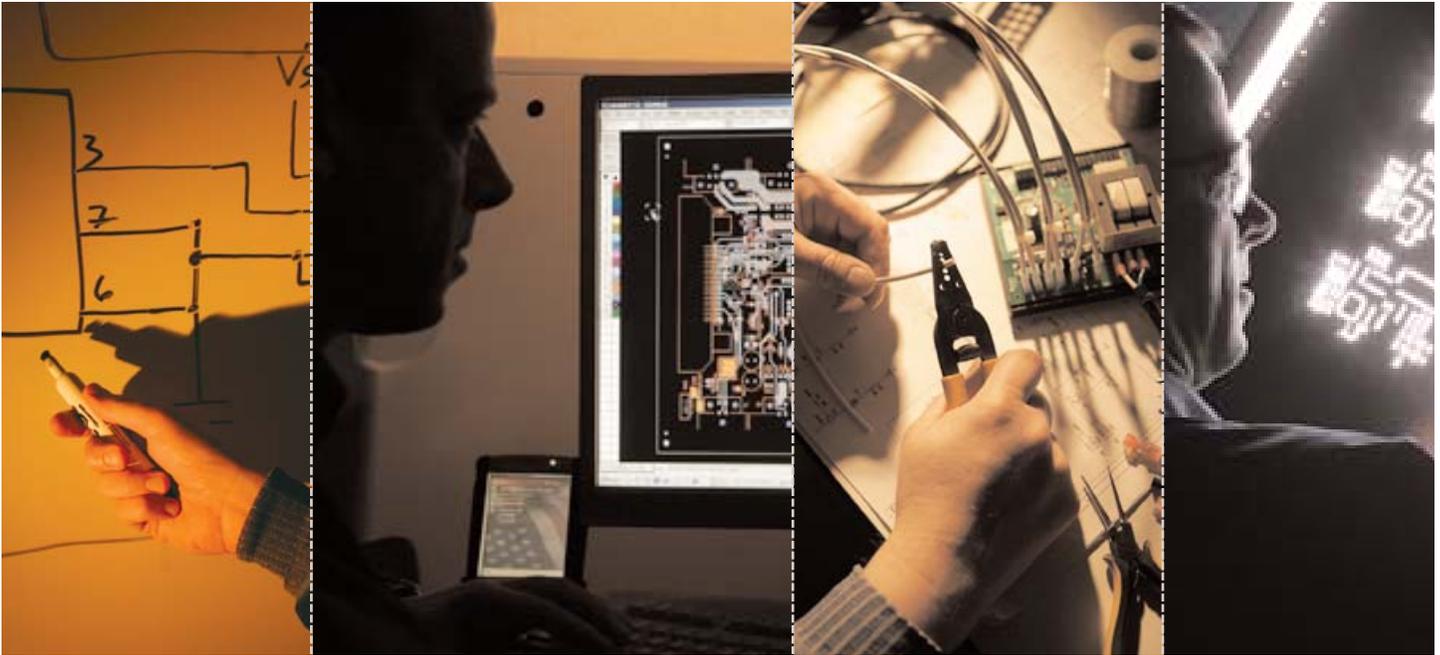
In response to customer demands, our facility in Baxter, Minn., is expanding its capabilities beyond the repair and refurbishment of printed circuit board assemblies. Environmental-stress screening is becoming more important, along with production of highly technical assemblies for our nearby Merrifield facility. One notable project, started in 2005, involves the production of navigation components for railroad locomotives, along with satellite testing.



REDUCING HAZARDOUS WASTE

To satisfy the requirements of certain customers, we are taking steps to ensure compliance with the European Union's Restriction of Hazardous Substances Directive (RoHS). Effective on July 1, 2006, RoHS limits the use of hazardous materials, such as lead, in the manufacture of various electronic equipment. A new RoHS-compliant production line was established at our Merrifield facility, involving new lead-free soldering equipment, software and training. All Nortech divisions will be assisting customers in updating their designs and documentation.





IMPROVED MARKET FOCUS

Our broad capabilities differentiate us from many industry peers, and our reorganized sales force is better equipped to promote our complete service offering. This team-oriented approach extends into seamless program management encompassing all elements of our customer's jobs — from initial quoting through final shipment.

INITIATIVE:
INCREASING CUSTOMER SATISFACTION

We've invested in additional resources and personnel to improve our partnerships with customers and increase their satisfaction. Our global model helps us offer the best array of services for each project, such as worldwide supply chain options and inventory management. We are formalizing expectations and deliverables with our customers to help ensure that Nortech is meeting their needs today and in the future.

RESULTS:
Reduced time to market; Reduced product costs through our early design involvement; Optimized supply chain performance.

INITIATIVE:
OFFERING SUPPLY CHAIN AND INVENTORY MANAGEMENT

To meet customer production demands, we design a supply chain solution to satisfy lead time requirements while minimizing inventory. One example is managing finished goods inventory via a third-party warehouse, delivering products directly to the customer's dock without charging freight.

RESULTS:
Reduced lead times; Improved inventory turns for customer; More stable production schedule.





PROMOTING STRATEGIC CAPABILITIES

Our strategic capabilities in Mexico and China position Nortech Systems as a “one-stop shop” for our customers. Domestically, we can assist with design, building prototypes, developing the bill of materials and starting pilot runs. Depending on the customer’s supply chain needs, we can continue production in the U.S. or transition to low-cost countries.



CORPORATE INFORMATION

Registrar and Transfer Agent

Wells Fargo Shareowner Services
 Mail: P.O. Box 64854
 St. Paul, MN 55164-0854
 Delivery: 161 North Concord Exchange
 South St. Paul, MN 55075
 Phone: (800) 468-9716 or (651) 450-4064
 Between 7:00 a.m. – 7:00 p.m. (Central Time)
 Fax: (651) 450-4033
 E-mail: stocktransfer@wellsfargo.com
www.wellsfargo.com/com/shareowner_services/

Legal Counsel

Bert M. Gross
 7201 Metro Boulevard
 Edina, MN 55439

Auditors

McGladrey & Pullen, LLP
 801 Nicollet Ave., 11th Floor, West Tower
 Minneapolis, MN 55402

Directors and Officers

MICHAEL J. DEGEN
 President, Chief Executive Officer & Director

MYRON KUNIN
 Chairman & Director
 Vice Chairman, Regis Corporation, Edina, MN

KENNETH LARSON
 Independent Director
 President & Chief Operating Officer (retired)
 Polaris Industries Inc., Medina, MN

RICHARD W. PERKINS
 Independent Director
 President & Chief Executive Officer
 Perkins Capital Management, Inc., Wayzata, MN

C. TRENT RILEY
 Independent Director
 President, Riley, Dettmann & Kelsey, L.L.C.
 Minnetonka, MN

RICHARD G. WASIELEWSKI
 Vice President & Chief Financial Officer

GARRY M. ANDERLY
 Senior Vice President, Corporate Finance & Treasurer

KEITH A. PIEPER
 Vice President of Operations

PETER L. KUCERA
 Vice President, Corporate Quality

DONALD E. HORNE
 Vice President, Global Supply Chain Management

CURTIS J. STEICHEN
 Vice President, Sales & Marketing

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Nortech Systems' Divisions

COMMERCIAL WIRE PRODUCTS

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 Augusta, WI 54722

Avenida E 541, Parque Industrial Martel
 Apodaca, Nuevo León 66634 Mexico

Intercon 1
 7746 Goedderz Road, Suite 110
 Baxter, MN 56425

DEFENSE/AEROSPACE

Aerospace Systems
 1930 West 1st Street
 Blue Earth, MN 56013

Aerospace Systems
 1007 East 10th Street
 Fairmont, MN 56031

ELECTRONICS

12136 Crystal Lake Road
 Merrifield, MN 56465

7746 Goedderz Road, Suite 100
 Baxter, MN 56425

Operating Partner

Shenzhen, China

Annual Meeting

The annual meeting of shareholders will be held May 10, 2006, at the Wayzata Country Club, 200 West Wayzata Boulevard, Wayzata, Minnesota. All shareholders are invited to attend.

A Form 10-K, notice of annual meeting of shareholders, proxy statement and form of proxy are enclosed with this report.





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