

FOCUSING ON OPPORTUNITIES

2006 ANNUAL REPORT

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Nortech Systems Inc. is a full-service electronics manufacturing services (EMS) provider of wire and cable assemblies, printed circuit board assemblies, and higher-level complete box build assemblies for a wide range of industries. Markets served include medical, automotive, defense, computer, commercial, recreational, government, consumer, agriculture and oil and gas. The company has manufacturing capabilities and operating partners in the U.S., Asia and Latin America. 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"

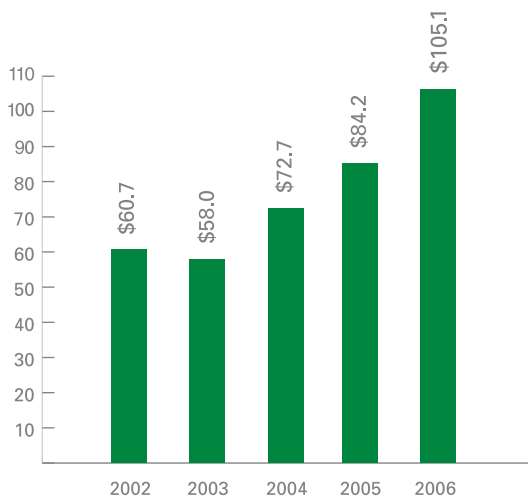
OUR PURPOSE

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

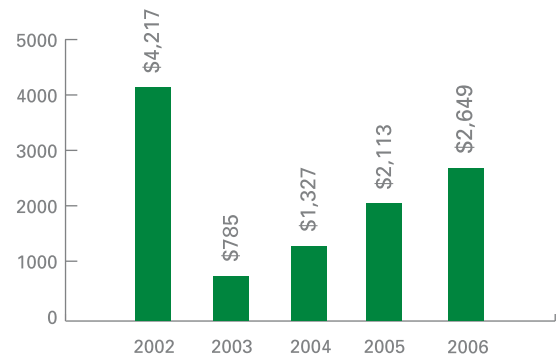
OUR VALUES

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

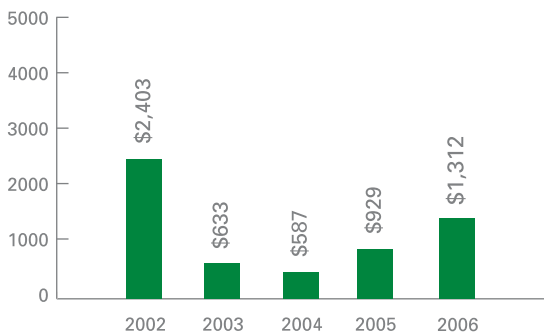
FINANCIAL HIGHLIGHTS



REVENUE
(MILLIONS)



OPERATING INCOME
(THOUSANDS)



NET INCOME
(THOUSANDS)



EQUITY
(THOUSANDS)



To Our Shareholders

2006 was a successful year for Nortech Systems. In addition to topping the \$100 million revenue plateau with gains in both operating and net income, we achieved several key milestones. We broadened our capabilities, streamlined our internal manufacturing systems and processes, and continued to build strong relationships with our customers.

As we look ahead to 2007, we will continue to pursue opportunities that will support our mission to be the preferred electronics manufacturing services provider that builds long-term relationships and creates value-added solutions for our customers. Specifically, we will focus on several key strategies:

- Forging strong customer relationships
- Delivering profitable sales growth
- Implementing lean manufacturing processes

We believe Nortech Systems will continue to grow, exceeding our industry's performance, aided by our operational structure and hard-earned reputation for outstanding quality and responsiveness. These strategic priorities will enable us to better serve our customers, leverage our operations, increase profitability and build shareholder value.

Strong 2006 Results

For the 2006 fiscal year, we reported record net sales of \$105.1 million, up 25 percent. Operating income increased 25 percent, to \$2.6 million, and net income grew 41 percent to \$1.3 million, or \$0.49 per diluted common share.

Strong demand by our defense-industry customers fueled significant revenue expansion in Aerospace Systems, contributing \$10.7 million, or 51 percent, of our overall revenue growth during 2006.

Last year our electronic assembly sales grew 27 percent, or \$5.6 million, and our commercial wire and cable sales increased 22 percent, or \$4.6 million.

Our working capital increased \$0.5 million to \$12.7 million and we generated \$2.8 million of cash flow from operating activities. Shareholder equity grew 10 percent to \$18.3 million. Our overall financial fundamentals, our liquidity and our balance sheet remain strong.



FOCUSED BRAND

We have strengthened our brand image across our key markets with an updated corporate logo and new logos for our Aerospace Systems and Intercon 1 brands.

 **Nortech Systems**

 **Aerospace Systems**
A Division of Nortech Systems

 **Intercon 1**
A Division of Nortech Systems

Strengthening Partnerships

We serve three primary markets – industrial, defense and medical – and this diversity is a key contributor to our success.

We continue to emphasize our value-added services, such as design, program and supply chain management, to strengthen our customer relationships. In 2006, we developed customer-centric programs for the medical imaging, semiconductor manufacturing and process control industries.

We've carved out a special niche in low-volume, high-mix production, and have earned a solid reputation in our specialty areas.

Our customer focus in 2007 must permeate every aspect of Nortech Systems – not just sales and customer service. While strengthening our relationship with existing customers, we are also adding new customers and targeting new markets that fit our business model.

Fueling Profitable Growth

In 2006, we expanded our production capabilities and took steps to broaden our customer base.

Our June 2006 purchase of a manufacturing facility in Blue Earth, Minnesota, provided additional capacity to meet demand for our Aerospace Systems operations, which focuses on specialized wire and cable assemblies for defense applications. From this facility, we support several military customers, including the building of cable assemblies for communications systems inside up-armored Humvee vehicles used by U.S. military around the world.

Our newest acquisition took place in February 2007, when we purchased the Garner, Iowa, operations of Suntron Corporation. We acquired a solid management team, an experienced staff of approximately 100 employees and a customer base that opens new markets for our company, such as agriculture and oil and gas. We also plan to leverage cross-selling opportunities.

Our new Iowa facility focuses on printed circuit board assemblies and higher-level complete box build assemblies for both industrial and military applications. Much like Aerospace Systems, the Garner operation specializes in ruggedized products meant to withstand challenging environmental conditions.

Creating high-performance product solutions for extremely demanding applications is just one of the differentiating factors distinguishing Nortech Systems in the marketplace. Over the years we have developed critical expertise and demonstrated strong technological leadership that our customers value.

Streamlining Manufacturing

Increased sales volumes and ongoing operational leveraging helped offset continued high costs for energy and many key commodities in 2006. For example, copper prices on average climbed 75 percent last year.

To thrive in this challenging environment requires a focus on continuous improvement in reducing our costs of goods sold. We continue to benchmark our performance and goals against a cross section of EMS companies of various sizes.

As we enter 2007, we have launched a comprehensive lean manufacturing initiative aimed at driving internal process improvements, lowering costs and increasing our net profit. Similar to our successful ISO 9001 quality program, implementing "lean" across multiple locations and operations requires a quantum leap in our internal mindset and culture. Correspondingly, the benefits we expect to realize from this initiative will be evident across all our facilities and processes.

During the first half of 2007, we will be implementing our first major lean initiative with the consolidation of our strategic purchasing activities under one corporate umbrella. This enables us to better leverage our volume and lower our cost of doing business.

Focusing on the Future

As we focus on these strategic initiatives – delivering value-added solutions to our customers, supporting profitable growth and improving our internal processes – we believe Nortech Systems will continue our momentum with a goal of exceeding our industry in performance.

I would like to thank and commend our talented Nortech Systems employees. Their continued commitment and dedication fuels our success in delivering long-term value to our shareholders and our customers. On behalf of all of them, we appreciate your ongoing support.

Sincerely,

A handwritten signature in black ink, appearing to read "mjk Degen". The signature is written in a cursive, somewhat stylized font.

Michael J. Degen
President & Chief Executive Officer

NORTECH SYSTEMS: AT A GLANCE



FULL-SERVICE CAPABILITIES

Our **design services** strengthen our partnerships with customers by involving us earlier and better leveraging the breadth of our services.

Our **manufacturing services** utilize lean systems to help accelerate the time-to-market for our customers and increase our efficiency.

Our **testing and diagnostics capabilities** ensure superior product performance and provide valued refurbishment services.

Our **supply chain management expertise** and global manufacturing options help reduce costs and improve our responsiveness.



DIVERSIFIED PRODUCT OFFERING

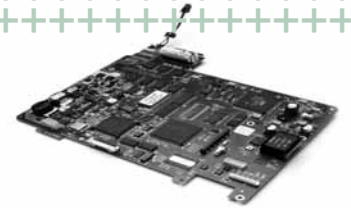
- Wire/Cable Assemblies
- Printed Circuit Board Assemblies
- Higher-Level Complete Box Build Assemblies

KEY MARKETS

- Industrial
- Defense
- Medical



FOCUSING ON OPPORTUNITIES



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

Fax: (651) 450-4033

E-mail: stocktransfer@wellsfargo.com

www.wellsfargo.com/shareownerservices

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, Operations

PETER L. KUCERA

Vice President, Corporate Quality

DONALD E. HORNE

Vice President, Global Supply Chain
Management

CURTIS J. STEICHEN

Vice President, Sales & Marketing

For additional information about Nortech Systems, please contact:

Michael J. Degen

President & Chief Executive Officer

Nortech Systems Incorporated

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Wayzata, MN 55391

(952) 345-2244

www.nortechsys.com

Nortech Systems' Headquarters

Nortech Systems Incorporated

1120 Wayzata Boulevard East, Suite 201

Wayzata, MN 55391

Nortech Systems' Manufacturing and Service Locations

COMMERCIAL WIRE PRODUCTS

4050 Norris Court N.W.

Bemidji, MN 56601

750 Industrial Drive

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 SYSTEMS

1930 West 1st Street

Blue Earth, MN 56013

1007 East 10th Street

Fairmont, MN 56031

ELECTRONIC ASSEMBLY

12136 Crystal Lake Road

Merrifield, MN 56465

7746 Goedderz Road, Suite 100

Baxter, MN 56425

325 North State Street

Garner, IA 50438

Operating Partner

Shenzhen, China

Annual Meeting

The annual meeting of shareholders will be held at 10:00 a.m. on May 9, 2007, at the Wayzata Country Club, 200 West Wayzata Boulevard, Wayzata, Minnesota.

A Form 10-K, notice of annual meeting of shareholders, proxy statement and form of proxy are enclosed with this report. The comparative stock price performance graph is located immediately behind the Form 10-K.



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