

BlackRock Enhanced Government Fund, Inc.  
Form N-CSRS  
September 04, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSRS**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES**

Investment Company Act file number 811-21793

Name of Fund: BlackRock Enhanced Government Fund, Inc. (EGF)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: Donald C. Burke, Chief Executive Officer, BlackRock  
Enhanced Government Fund, Inc., 800 Scudders Mill Road, Plainsboro, NJ, 08536. Mailing  
address: P.O. Box 9011, Princeton, NJ, 08543-9011

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 12/31/2008

Date of reporting period: 01/01/2008 06/30/2008

Item 1 Report to Stockholders

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EQUITIES FIXED INCOME REAL ESTATE LIQUIDITY ALTERNATIVES BLACKROCK SOLUTIONS

**BlackRock Enhanced  
Government Fund, Inc. (EGF)**

**SEMI-ANNUAL REPORT**

**JUNE 30, 2008 | (UNAUDITED)**

NOT FDIC INSURED  
MAY LOSE VALUE  
NO BANK GUARANTEE

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JUNE 30, 2008

## A Letter to Shareholders

### Dear Shareholder

Throughout the past year, investors were overwhelmed by lingering credit and financial market troubles, surging oil prices and more recently, renewed inflation concerns. Healthy nonfinancial corporate profits and robust exporting activity remained among the few bright spots, helping the economy to grow at a modest, but still positive, pace.

The Federal Reserve Board (the Fed) has been aggressive in its attempts to stoke economic growth and ease financial market instability. In addition to slashing the target federal funds rate 325 basis points (3.25%) between September 2007 and April 2008, the central bank introduced the new Term Securities Lending Facility, granted broker-dealers access to the discount window and used its own balance sheet to help negotiate the sale of Bear Stearns.

As widely anticipated, the end of the period saw a pause in Fed action, as the central bank held the target rate steady at 2.0% amid rising inflationary pressures.

As the Fed's bold response to the financial crisis helped ease credit turmoil and investor anxiety, U.S. equity markets sank sharply over the last six months, notwithstanding a brief rally in the spring. International markets were not immune

to the tumult, with most regions also registering declines.

Treasury securities also traded in a volatile fashion, but generally rallied (yields fell as prices correspondingly rose), with investors continuing to seek safety as part of a broader flight to quality. The yield on 10-year Treasury issues, which fell to 3.34% in March 2008, climbed up to the 4.20% range in mid-June as investors temporarily shifted out of Treasury issues in favor of riskier assets (such as stocks and other high-quality fixed income sectors), then reversed course and declined to 3.99% by period-end when credit fears re-emerged.

Tax-exempt issues eked out gains for the reporting period, but underperformed their taxable counterparts, as the group continued to be pressured by problems among municipal bond insurers and the breakdown in the market for auction rate securities.

The major benchmark indexes generated results that largely reflected heightened investor risk aversion:

| <b>Total Returns as of June 30, 2008</b>                                            | <b>6-month</b> | <b>12-month</b> |
|-------------------------------------------------------------------------------------|----------------|-----------------|
| U.S. equities (S&P 500 Index)                                                       | (11.91)%       | (13.12)%        |
| Small cap U.S. equities (Russell 2000 Index)                                        | (9.37)%        | (16.19)%        |
| International equities (MSCI Europe, Australasia, Far East Index)                   | (10.96)%       | (10.61)%        |
| Fixed income (Lehman Brothers U.S. Aggregate Index)                                 | 1.13%          | 7.12%           |
| Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)                      | 0.02%          | 3.23%           |
| High yield bonds (Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index) | (1.08)%        | (1.74)%         |

Past performance is no guarantee of future results. Index performance shown for illustrative purposes only. You cannot invest directly in an index.

As you navigate today's volatile markets, we encourage you to review your investment goals with your financial professional and to make portfolio changes, as needed. For more up-to-date commentary on the economy and financial markets, we invite you to visit [www.blackrock.com/funds](http://www.blackrock.com/funds). As always, we thank you for entrusting BlackRock with your investment assets, and we look forward to continuing to serve you in the months and years ahead.

THIS PAGE NOT PART OF YOUR FUND REPORT

## Fund Summary as of June 30, 2008

### Investment Objective

**BlackRock Enhanced Government Fund, Inc. (EGF) (the Fund)** seeks to provide shareholders with current income and gains. The Fund seeks to achieve its investment objective by investing primarily in a portfolio of U.S. Government securities and U.S. Government Agency securities, including U.S. Government mortgage-backed securities that pay interest in an attempt to generate current income and by employing a strategy of writing (selling) call options on individual or baskets of U.S. Government securities, U.S. Government Agency securities or other debt securities held by the Fund in an attempt to generate gains from option premiums.

### Performance

For the six months ended June 30, 2008, the Fund returned 9.69% based on market price and 3.64% based on net asset value (NAV). For the same period, the closed-end Lipper Corporate Debt Funds BBB-Rated category posted an average return of (1.25)% on a NAV basis. All returns reflect reinvestment of dividends. The Fund was over 90% Government and AAA-rated debt and over 90% mortgage-backed and U.S. Government securities during the period. This aided relative performance as the Lipper category consists largely of corporate funds, which underperformed higher-quality investments. The Fund also held a position in interest-only obligations, which aided performance as mortgage prepayments slowed. During the period, the Fund's discount to NAV narrowed substantially, which accounts for the difference between performance based on price and performance based on NAV.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

### Fund Information

|                                                                          |                  |
|--------------------------------------------------------------------------|------------------|
| Symbol on New York Stock Exchange                                        | EGF              |
| Initial Offering Date                                                    | October 31, 2005 |
| Yield on Closing Market Price as of June 30, 2008 (\$16.85) <sup>1</sup> | 7.48%            |
| Current Monthly Distribution per share of Common Stock <sup>2</sup>      | \$0.105          |
| Current Annualized Distribution per share of Common Stock <sup>2</sup>   | \$1.26           |
| Leverage as of June 30, 2008 <sup>3</sup>                                | 11%              |

<sup>1</sup> Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price.

Past performance does not guarantee future results.

<sup>2</sup> The distribution is not constant and is subject to change. A portion of the distribution may be deemed a tax return of capital or net realized gain at fiscal year end.

<sup>3</sup> As a percentage of total managed assets, which is the total assets of the Fund (including any assets attributable to any borrowing that may be outstanding) minus the sum of accrued liabilities (other than debt representing financial leverage).

The table below summarizes the changes in the Fund's market price and net asset value per share:

|                 | 6/30/08 | 12/31/07 | Change | High    | Low     |
|-----------------|---------|----------|--------|---------|---------|
| Market Price    | \$16.85 | \$15.84  | 6.38%  | \$17.90 | \$15.84 |
| Net Asset Value | \$17.51 | \$17.42  | 0.52%  | \$18.10 | \$17.26 |

The following chart shows the portfolio composition of the Fund's long-term investments:

| Portfolio Composition                                 |                         |  |         |          |
|-------------------------------------------------------|-------------------------|--|---------|----------|
|                                                       |                         |  | 6/30/08 | 12/31/07 |
| U.S. Government Agency Mortgage-Backed Securities     |                         |  | 60%     | 68%      |
| U.S. Government & Agency Obligations                  |                         |  | 12      | 2        |
| U.S. Government Agency Mortgage-Backed Securities     | Collateralized Mortgage |  |         |          |
| Obligations                                           |                         |  | 11      | 14       |
| Non-U.S. Government Agency Mortgage-Backed Securities |                         |  | 9       | 6        |
| Asset-Backed Securities                               |                         |  | 4       | 4        |
| Preferred Securities                                  |                         |  | 2       | 4        |
| Corporate Bonds                                       |                         |  | 2       | 2        |

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## The Benefits and Risks of Leveraging

The Fund utilizes leverage through borrowings or issuance of short-term debt securities. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest rates, which normally will be lower than the income earned by the Fund on its longer-term portfolio investments. To the extent that the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's shareholders will benefit from the incremental yield. Leverage creates risks for shareholders including the likelihood of greater NAV and market price volatility. In addition, there is the risk that fluctuations in interest rates on borrowings may reduce the yield and negatively impact its NAV and market price. If the income derived from securities purchased with

assets received from leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to shareholders will be reduced. Under the Investment Company Act of 1940, the Fund is permitted to borrow through the issuance of short-term debt securities in an amount up to 33<sup>1</sup>/<sub>3</sub>% of its total managed assets. The Fund also anticipates that leverage from reverse repurchase agreements will not exceed 33<sup>1</sup>/<sub>3</sub>% of managed assets. As of June 30,

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2008, the Fund had outstanding leverage from reverse repurchase agreements of 11% of its total managed assets.

### Swap Agreements

The Fund may invest in swap agreements, which are over-the-counter contracts in which one party agrees to make periodic payments based on the change in market value of a specified bond, basket of bonds, or index in return for periodic payments based on a fixed or variable interest rate or the change in market value of a different bond, basket of bonds or index. Swap agreements may be used to obtain exposure to a bond or market

without owning or taking physical custody of securities. Swap agreements involve the risk that the party with whom the Fund has entered into the swap will default on its obligation to pay the Fund and the risk that the Fund will not be able to meet its obligations to pay the other party to the agreement.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

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### Schedule of Investments June 30, 2008 (Unaudited)

| Asset-Backed Securities                                                                                 | Par<br>(000) | Value            |
|---------------------------------------------------------------------------------------------------------|--------------|------------------|
| Asset Backed Securities Corp. Home Equity Line Trust<br>Series 2006-HE7 Class A2, 2.533%, 11/25/36 (a)  | \$ 1,692     | \$ 1,652,753     |
| First Franklin Mortgage Loan Asset Backed Certificates<br>Series 2005-FF2 Class M2, 2.923%, 3/25/35 (a) | 3,220        | 2,060,800        |
| GSAA Home Equity Trust Series 2005-1 Class AF2,<br>4.316%, 11/25/34 (a)                                 | 1,961        | 1,802,199        |
| Securitized Asset Backed Receivables LLC Trust (a):<br>Series 2005-OP1 Class M2, 2.933%, 1/25/35        | 2,000        | 1,581,574        |
| Series 2005-OP2 Class M1, 2.913%, 10/25/35                                                              | 1,025        | 738,000          |
| Soundview Home Equity Loan Trust Series 2007-OPT5<br>Class 2A2, 3.433%, 10/25/37 (a)                    | 2,500        | 2,113,281        |
| <b>Total Asset-Backed Securities 4.6%</b>                                                               |              | <b>9,948,607</b> |

### Corporate Bonds

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|                                                                      |        |             |
|----------------------------------------------------------------------|--------|-------------|
| <b>Electric Utilities 0.8%</b>                                       |        |             |
| PPL Capital Funding, 6.70%, 3/30/67 (a)                              | 2,000  | 1,706,070   |
| <b>Insurance 1.8%</b>                                                |        |             |
| The Allstate Corp., 6.50%, 5/15/57 (a)                               | 2,000  | 1,747,448   |
| ZFS Finance (USA) Trust (a)(b):                                      |        |             |
| Series IV, 5.875%, 5/09/32                                           | 500    | 456,070     |
| Series V, 6.50%, 5/09/67                                             | 2,000  | 1,745,612   |
|                                                                      |        | 3,949,130   |
| <b>Total Corporate Bonds 2.6%</b>                                    |        | 5,655,200   |
| <b>U.S. Government Agency Mortgage-Backed Securities</b>             |        |             |
| Fannie Mae Guaranteed Pass Through Certificates:                     |        |             |
| 4.50%, 7/15/23 (c)                                                   | 8,400  | 8,116,500   |
| 4.66%, 7/01/10                                                       | 1,883  | 1,891,244   |
| 4.681%, 2/01/13                                                      | 5,920  | 5,931,435   |
| 5.00%, 4/01/19 10/01/35                                              | 29,586 | 28,561,337  |
| 5.24%, 4/01/12                                                       | 7,939  | 8,052,443   |
| 5.274%, 10/01/35                                                     | 5,079  | 5,143,578   |
| 5.50%, 7/15/23 7/15/38 (c)                                           | 45,858 | 45,320,848  |
| 5.707%, 2/01/12                                                      | 2,632  | 2,733,525   |
| 6.00%, 7/01/36 7/15/38 (c)                                           | 18,591 | 18,772,843  |
| 6.60%, 1/01/11 (c)                                                   | 5,222  | 5,421,275   |
| Freddie Mac Mortgage Participation Certificates:                     |        |             |
| 4.50%, 5/01/34                                                       | 1,078  | 1,004,964   |
| 5.00%, 5/01/20 8/01/37                                               | 8,256  | 17,626,176  |
| 5.50%, 4/01/37                                                       | 738    | 727,647     |
| 6.00%, 7/15/38 (c)                                                   | 2,500  | 2,525,000   |
| 6.50%, 7/15/38 (c)                                                   | 4,200  | 4,328,625   |
| Ginnie Mae MBS Certificates:                                         |        |             |
| 5.00%, 11/15/35                                                      | 2,791  | 2,712,241   |
| 5.50%, 11/15/35                                                      | 2,410  | 2,404,563   |
| <b>Total U.S. Government Agency Mortgage-Backed Securities 75.1%</b> |        | 161,274,244 |

See Notes to Financial Statements.

(Percentages shown are based on Net Assets)

**U.S. Government Agency Mortgage-Backed Securities Collateralized Mortgage Obligations**

**Par (000) Value**

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## Fannie Mae Trust (d):

|                                             |          |              |
|---------------------------------------------|----------|--------------|
| Series 353 Class 2, 5%, 8/01/34             | \$ 4,280 | \$ 1,106,857 |
| Series 367 Class 2, 5.50%, 1/25/36          | 3,913    | 1,023,323    |
| Series 378 Class 5, 5%, 7/01/36             | 4,443    | 1,075,977    |
| Series 2008-9 Class SA, 4.518%, 2/25/38 (a) | 11,411   | 1,094,307    |
| Series 3006-8 Class HN, 4.768%, 3/25/36     | 2,047    | 171,914      |

## Freddie Mac Multiclass Certificates:

|                                              |       |           |
|----------------------------------------------|-------|-----------|
| Series 232 Class IO, 5%, 8/01/35 (d)         | 4,569 | 1,147,334 |
| Series 2611 Class KT, 8.298%, 4/15/17 (a)    | 610   | 598,754   |
| Series 2654 Class YD, 5%, 12/15/26 (d)       | 6,996 | 429,021   |
| Series 2659 Class IA, 5%, 12/15/21 (d)       | 202   | 262       |
| Series 2996 Class SJ, 4.279%, 6/15/35 (a)(d) | 3,569 | 281,838   |
| Series 3042 Class EA, 4.50%, 9/15/35         | 2,680 | 2,457,085 |
| Series 3183 Class KI, 6%, 12/15/34 (d)       | 3,616 | 394,833   |

## Ginnie Mae Trust (a):

|                                              |        |           |
|----------------------------------------------|--------|-----------|
| Series 2005-47 Class SP, 3.368%, 8/20/32 (d) | 28,256 | 1,444,592 |
| Series 2005-87 Class C, 5.328%, 9/16/34      | 10,000 | 9,852,872 |
| Series 2006-3 Class C, 5.235%, 4/16/39       | 10,000 | 9,350,321 |
| Series 2006-30 Class IO, 0.785%, 5/16/46 (d) | 8,724  | 417,147   |

## Total U.S. Government Agency Mortgage-Backed

|                   |                                            |              |                   |
|-------------------|--------------------------------------------|--------------|-------------------|
| <b>Securities</b> | <b>Collateralized Mortgage Obligations</b> | <b>14.4%</b> | <b>30,846,437</b> |
|-------------------|--------------------------------------------|--------------|-------------------|

## Non-U.S. Government Agency Mortgage-Backed Securities

### Collateralized Mortgage Obligations 7.7%

|                                                                                                     |        |           |
|-----------------------------------------------------------------------------------------------------|--------|-----------|
| Banc of America Funding Corp. Series 2007-5<br>Class 4A3, 4.068%, 7/25/37 (a)(d)                    | 18,662 | 1,309,623 |
| Banc of America Mortgage Securities Inc.<br>Series 2003-J Class 2A1, 4.076%, 11/25/33 (a)           | 812    | 792,203   |
| Bear Stearns Alternative-A Trust Series 2004-13 Class A1,<br>2.853%, 11/25/34 (a)                   | 706    | 552,805   |
| Bear Stearns Asset Backed Securities Series 2007-AC2<br>Class X, 0.25%, 3/25/37 (d)                 | 12,805 | 126,901   |
| CS First Boston Mortgage Securities Corp.<br>Series 2005-11 Class 6A5, 6%, 12/25/35                 | 1,512  | 1,497,664 |
| Citi Mortgage Alternative Loan Trust Series 2007-A5<br>Class 1A7, 6%, 5/25/37 (d)                   | 955    | 125,831   |
| Citigroup Mortgage Loan Trust, Inc. Series 2005-12<br>Class 1A2, 2.268%, 8/25/35 (a)(d)             | 11,800 | 345,435   |
| Countrywide Alternative Loan Trust Series 2006-41CB<br>Class 2A17, 6%, 1/25/37                      | 2,449  | 2,253,294 |
| First Horizon Alternative Mortgage Securities<br>Series 2007-FA2 Class 1A11, 4.268%, 4/25/37 (a)(d) | 21,531 | 1,135,857 |



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|                                                                                                                         |        |            |
|-------------------------------------------------------------------------------------------------------------------------|--------|------------|
| Homebank Mortgage Trust Series 2005-4 Class A1,<br>2.753%, 10/25/35 (a)                                                 | 2,655  | 2,185,097  |
| JPMorgan Alternative Loan Trust Series 2006-S1<br>Class 3A1A, 5.35%, 3/25/36 (a)                                        | 1,289  | 1,291,381  |
| Residential Asset Securitization Trust Series 2004-A9<br>Class A3, 4.668%, 12/25/34 (a)(d)                              | 12,797 | 701,554    |
| Residential Funding Mortgage Securities I<br>Series 2006-S1 Class 1A5, 5.25%, 1/25/36                                   | 1,359  | 1,337,305  |
| WAMU Mortgage Pass-Through Certificates<br>Series 2005-AR7 Class A1, 4.917%, 8/25/35 (a)                                | 2,711  | 2,683,396  |
| Washington Mutual Alternative Mortgage<br>Pass-Through Certificates Series 2005-8<br>Class 1A4, 1.868%, 10/25/35 (a)(d) | 4,559  | 53,694     |
|                                                                                                                         |        | 16,392,040 |

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### Schedule of Investments (continued)

| Non-U.S. Government Agency<br>Mortgage-Backed Securities                                    | Par<br>(000) | Value      |
|---------------------------------------------------------------------------------------------|--------------|------------|
| <b>Commercial Mortgage-Backed Securities 3.5%</b>                                           |              |            |
| Citigroup Commercial Mortgage Trust Series 2007-C6<br>Class A4, 5.889%, 12/10/49 (a)        | \$ 475       | \$ 451,374 |
| Greenwich Capital Commercial Funding Corp.<br>Series 2006-GG7 Class A4, 6.112%, 7/10/38 (a) | 1,500        | 1,479,706  |
| JPMorgan Chase Commercial Mortgage Securities<br>Corp. Class A4 (a):                        |              |            |
| Series 2006-CB15, 5.814%, 6/12/43                                                           | 2,500        | 2,438,849  |
| Series 2006-LDP7, 6.066%, 4/15/45                                                           | 2,000        | 1,964,568  |
| Series 2007-CB20, 5.794%, 2/12/51                                                           | 1,330        | 1,261,832  |
|                                                                                             |              | 7,596,329  |
| <b>Total Non-U.S. Government Agency<br/>Mortgage-Backed Securities 11.2%</b>                |              | 23,988,369 |

**U.S. Government & Agency Obligations**

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|                                                             |                      |            |
|-------------------------------------------------------------|----------------------|------------|
| Federal Farm Credit Bank, 4.55%, 6/08/20                    | 3,500                | 3,360,697  |
| Federal Home Loan Bank, 5.40%, 10/27/11 (e)                 | 3,525                | 3,551,134  |
| U.S. Treasury Notes, 2.875%, 1/31/13 (f)                    | 25,235               | 24,803,254 |
| <b>Total U.S. Government &amp; Agency Obligations 14.8%</b> |                      | 31,715,085 |
| <b>Preferred Securities</b>                                 |                      |            |
| <b>Capital Trusts</b>                                       |                      |            |
| <b>Diversified Financial Services 0.8%</b>                  |                      |            |
| JPMorgan Chase Capital XXII, 6.45%, 1/15/87                 | 2,000                | 1,714,268  |
| <b>Total Capital Trusts 0.8%</b>                            |                      | 1,714,268  |
| <b>Preferred Stocks</b>                                     | <b>Shares</b>        |            |
| <b>Commercial Banks 0.4%</b>                                |                      |            |
| Wachovia Corp. Series J, 8%                                 | 40,000               | 896,800    |
| <b>Diversified Financial Services 0.3%</b>                  |                      |            |
| Citigroup, Inc. Series AA, 8.125%                           | 25,000               | 560,000    |
| <b>Total Preferred Stocks 0.7%</b>                          |                      | 1,456,800  |
| <b>Trust Preferreds</b>                                     | <b>Par<br/>(000)</b> |            |
| <b>Capital Markets 0.7%</b>                                 |                      |            |
| Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67           | \$ 2,000             | 1,464,800  |
| <b>Media 0.8%</b>                                           |                      |            |
| Comcast Corp., 6.625%, 5/15/56                              | 2,000                | 1,722,400  |
| <b>Total Trust Preferreds 1.5%</b>                          |                      | 3,187,200  |
| <b>Total Preferred Securities 3.0%</b>                      |                      | 6,358,268  |

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**Total Long-Term Securities**

(Cost \$272,614,521) 125.7%

269,786,210

See Notes to Financial Statements.

(Percentages shown are based on Net Assets)

| Short-Term Securities              | Beneficial<br>Interest (000) | Value        |
|------------------------------------|------------------------------|--------------|
| BlackRock Liquidity Series, LLC    |                              |              |
| Cash Sweep Series, 2.56% (g)(h)    | \$14,242                     | \$14,242,197 |
| <b>Total Short-Term Securities</b> |                              |              |
| (Cost \$14,242,197) 6.6%           |                              | 14,242,197   |

**Options Purchased**

**Call Swaptions Purchased**

|                                                                                                                                            | Contracts(i) |           |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------|
| Receive a fixed rate of 5.495% and pay a floating rate based on 3-month LIBOR, expiring May 2012, Broker Credit Suisse International       | 18           | 784,703   |
| Receive a fixed rate of 5.725% and pay a floating rate based on 3-month LIBOR, expiring May 2012, Broker Lehman Brothers Special Financing | 18           | 1,275,309 |
|                                                                                                                                            |              | 2,060,012 |

**Put Swaptions Purchased**

|                                                                                                                                            |    |           |
|--------------------------------------------------------------------------------------------------------------------------------------------|----|-----------|
| Pay a fixed rate of 5.495% and receive a floating rate based on 3-month LIBOR, expiring May 2012, Broker Credit Suisse International       | 18 | 1,122,751 |
| Pay a fixed rate of 5.725% and receive a floating rate based on 3-month LIBOR, expiring May 2012, Broker Lehman Brothers Special Financing | 18 | 689,568   |
|                                                                                                                                            |    | 1,812,319 |
| <b>Total Options Purchased (Cost \$2,777,390) 1.8%</b>                                                                                     |    | 3,872,331 |

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## Total Investments Before TBA Sale Commitments

and Options Written (Cost \$289,634,108\*) 134.1% 287,900,738

| TBA Sale Commitments                                                       | Par<br>(000) |                    |
|----------------------------------------------------------------------------|--------------|--------------------|
| Fannie Mae Guaranteed Pass Through<br>Certificates, 5.50%, 7/15/23 7/15/38 | \$ 9,000     | (8,881,614)        |
| <b>Total TBA Sale Commitments</b><br><b>(Proceeds \$8,865,459) (4.2%)</b>  |              | <b>(8,881,614)</b> |

| Options Written                                                                                                                                     | Contracts(i) |                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------|
| <b>Call Swaptions Written</b>                                                                                                                       |              |                    |
| Pay a fixed rate of 5.4475% and receive a<br>floating rate based on 3-month LIBOR,<br>expiring May 2010, Broker Credit Suisse<br>International      | 11           | (618,189)          |
| Pay a fixed rate of 5.685% and receive a<br>floating rate based on 3-month LIBOR,<br>expiring May 2010, Broker Lehman<br>Brothers Special Financing | 11           | (1,268,899)        |
|                                                                                                                                                     |              | <b>(1,887,088)</b> |

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## Schedule of Investments (continued) (Percentages shown are based on Net Assets)

| Options Written                                                                                                                                     | Contracts(i) | Value       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
| <b>Put Swaptions Written</b>                                                                                                                        |              |             |
| Receive a fixed rate of 4.85% and pay a<br>floating rate based on 3-month \$ LIBOR,<br>expiring July 2008, Broker Union Bank<br>of Switzerland, A.G | 19           | \$ (84,283) |

# Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

|                                                                                                                                            |    |               |
|--------------------------------------------------------------------------------------------------------------------------------------------|----|---------------|
| Receive a fixed rate of 5.4475% and pay a floating rate based on 3-month LIBOR, expiring May 2010, Broker Credit Suisse International      | 11 | (1,047,893)   |
| Receive a fixed rate of 5.685% and pay a floating rate based on 3-month LIBOR, expiring May 2010, Broker Lehman Brothers Special Financing | 11 | (505,691)     |
|                                                                                                                                            |    | (1,637,867)   |
| <b>Total Options Written (Premiums Received \$2,768,959) (1.6%)</b>                                                                        |    | (3,524,955)   |
| <b>Total Investments, Net of TBA Sale Commitments and Options Written 128.3%</b>                                                           |    | 275,494,169   |
| <b>Liabilities in Excess of Other Assets (28.3%)</b>                                                                                       |    | (60,842,584)  |
| <b>Net Assets 100.0%</b>                                                                                                                   |    | \$214,651,585 |

\* The cost and unrealized appreciation (depreciation) of investments as of June 30, 2008, as computed for federal income tax purposes were as follows:

|                               |                |
|-------------------------------|----------------|
| Aggregate cost                | \$ 289,634,108 |
| Gross unrealized appreciation | \$ 5,254,436   |
| Gross unrealized depreciation | (6,987,806)    |
| Net unrealized depreciation   | \$ (1,733,370) |

(a) Variable rate security. Rate shown is as of report date.

(b) Security exempt from registration under Rule 144A of the Securities Act of 1933.

These securities may be resold in transactions exempt from registration to qualified institutional investors. Unless otherwise indicated, these securities are considered to be liquid.

(c) Represents or includes a "to-be-announced" transaction. The Fund has committed to purchasing securities for which all specific information is not available at this time.

(d) Represents the interest only portion of a mortgage-backed security and has either a nominal or a notional amount of principal.

(e) All, or a portion of security, pledged as collateral in connection with open financial futures contracts.

(f) All or a portion of security has been pledged as collateral in connection with reverse repurchase agreements.

(g) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Net

Interest

Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

| Affiliate                       | Activity       | Income     |
|---------------------------------|----------------|------------|
| BlackRock Liquidity Series, LLC |                |            |
| Cash Sweep Series               | \$ (2,865,057) | \$ 139,838 |

(h) Represents the current yield as of report date.

(i) One contract represents a notional amount of \$1,000,000.

Financial futures contracts purchased as of June 30,2008 were as follows:

| Contracts                                | Issue                      | Expiration Date | Face Value   | Unrealized Appreciation (Depreciation) |
|------------------------------------------|----------------------------|-----------------|--------------|----------------------------------------|
| 52                                       | 2-Year U.S. Treasury Bond  | September 2008  | \$10,929,805 | \$ 52,757                              |
| 191                                      | 5-Year U.S. Treasury Bond  | September 2008  | \$21,191,029 | (75,084)                               |
| 525                                      | 10-Year U.S. Treasury Bond | September 2008  | \$59,792,442 | 16,542                                 |
| 14                                       | Euro Dollar Future         | September 2008  | \$ 3,389,793 | 7,657                                  |
| 14                                       | Euro Dollar Future         | December 2008   | \$ 3,377,543 | 11,157                                 |
| 14                                       | Euro Dollar Future         | March 2009      | \$ 3,371,418 | 12,382                                 |
| 15                                       | Euro Dollar Future         | June 2009       | \$ 3,604,358 | 13,267                                 |
| 10                                       | Euro Dollar Future         | September 2009  | \$ 2,398,156 | 7,219                                  |
| 10                                       | Euro Dollar Future         | December 2009   | \$ 2,391,656 | 6,719                                  |
| 10                                       | Euro Dollar Future         | March 2010      | \$ 2,387,030 | 6,595                                  |
| 11                                       | Euro Dollar Future         | June 2010       | \$ 2,621,334 | 6,979                                  |
| 8                                        | Euro Dollar Future         | September 2010  | \$ 1,904,324 | 4,576                                  |
| 8                                        | Euro Dollar Future         | December 2010   | \$ 1,902,324 | 4,276                                  |
| 8                                        | Euro Dollar Future         | March 2011      | \$ 1,901,893 | 3,707                                  |
| 9                                        | Euro Dollar Future         | June 2011       | \$ 2,138,990 | 3,573                                  |
| <b>Total Net Unrealized Appreciation</b> |                            |                 |              | <b>\$ 82,322</b>                       |

# Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

Reverse repurchase agreements outstanding as of June 30, 2008 were as follows:

| Counterparty                | Interest Rate | Trade Rate | Maturity Date | Net Closing Amount | Face Amount  |
|-----------------------------|---------------|------------|---------------|--------------------|--------------|
| JPMorgan<br>Securites, Inc. | 1.208%        | 2/12/08    | TBD           | \$12,735,550       | \$12,676,019 |
| Lehman<br>Brothers, Inc.    | 0.95%         | 2/14/08    | TBD           | 12,826,206         | 12,779,375   |
| <b>Total</b>                |               |            |               | \$25,561,756       | \$25,455,394 |

Swaps outstanding as of June 30, 2008 were as follows:

|                                                                                                                                                 | Notional Amount<br>(000) | Unrealized Appreciation<br>(Depreciation) |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------|
| Receive a fixed rate of 4.68528% and pay<br>a floating rate based on 3-month LIBOR<br>Broker, Deutsche Bank AG London<br>Expires September 2009 | \$130,000                | \$(2,217,101)                             |
| Pay a fixed rate of 4.625% and receive a<br>floating rate based on 3-month LIBOR<br>Broker, Deutsche Bank AG London<br>Expires March 2013       | \$ 50,000                | (848,949)                                 |

See Notes to Financial Statements.

8 BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2008

## Schedule of Investments (concluded)

Swaps outstanding as of June 30, 2008 (concluded):

|                                                                                                                                            | Notional Amount<br>(000) | Unrealized Appreciation<br>(Depreciation) |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------|
| Receive a fixed rate of 4.17% and pay a<br>floating rate based on 3-month LIBOR<br>Broker, Credit Suisse First Boston<br>Expires June 2013 | \$ 50,000                | \$ (180,173)                              |

## Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

|                                                                                |           |                       |
|--------------------------------------------------------------------------------|-----------|-----------------------|
| Pay a fixed rate of 5.705% and receive a floating rate based on 3-month LIBOR  |           |                       |
| Broker, Deutsche Bank AG London                                                |           |                       |
| Expires June 2017                                                              | \$ 50,000 | (3,997,669)           |
| Receive a fixed rate of 4.65% and pay a floating rate based on 3-month LIBOR   |           |                       |
| Broker, Credit Suisse First Boston                                             |           |                       |
| Expires December 2017                                                          | \$ 28,600 | 10,001                |
| Pay a fixed rate of 5.88% and receive a floating rate based on 3-month LIBOR   |           |                       |
| Broker, Deutsche Bank AG London                                                |           |                       |
| Expires June 2018                                                              | \$ 36,076 | (2,703,749)           |
| Pay a fixed rate of 5.9575% and receive a floating rate based on 3-month LIBOR |           |                       |
| Broker, Deutsche Bank AG London                                                |           |                       |
| Expires December 2037                                                          | \$ 25,000 | (3,818,552)           |
| <hr/>                                                                          |           |                       |
| <b>Total</b>                                                                   |           | <b>\$(13,756,192)</b> |
|                                                                                |           | <hr/>                 |

Effective January 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the fair value of investments, which are as follows:

Level 1 price quotations in active markets/exchanges for identical securities

Level 2 other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the Fund's own assumption used in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Fund's policy regarding valuation of investments and other significant accounting policies, please refer to Note 1 of the Notes to Financial Statements.

The following table summarizes the inputs used as of June 30, 2008 in determining the fair valuation of the Fund's investments:

| Valuation<br>Inputs | Investments in<br>Securities | Other Financial<br>Instruments* |
|---------------------|------------------------------|---------------------------------|
| <hr/>               |                              |                                 |
| Level 1             | \$ 4,084,000                 | \$ 82,322                       |
| Level 2             | 271,062,793                  | (13,408,816)                    |
| Level 3             |                              |                                 |



# Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

|              |               |                |
|--------------|---------------|----------------|
| <b>Total</b> | \$275,146,793 | \$(13,326,494) |
|--------------|---------------|----------------|

\* Other financial instruments are swaps, futures and options.

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

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## Statement of Assets and Liabilities

June 30, 2008 (Unaudited)

|                                                        |  |                |
|--------------------------------------------------------|--|----------------|
| <b>Assets</b>                                          |  |                |
| Investments at value unaffiliated (cost \$275,391,911) |  | \$ 273,658,541 |
| Investments at value affiliated (cost \$14,242,197)    |  | 14,242,197     |
| Unrealized appreciation on swaps                       |  | 10,001         |
| Cash                                                   |  | 551,875        |
| Investments sold receivable                            |  | 22,033,260     |
| Interest receivable                                    |  | 2,269,726      |
| Principal paydowns receivable                          |  | 1,029,140      |
| Swaps receivable                                       |  | 396,688        |
| Margin variation receivable                            |  | 184,912        |
| Prepaid expenses                                       |  | 10,559         |
| Total assets                                           |  | 314,386,899    |

|                                                          |  |            |
|----------------------------------------------------------|--|------------|
| <b>Liabilities</b>                                       |  |            |
| Unrealized depreciation on swaps                         |  | 13,766,193 |
| TBA sale commitments at value (proceeds \$8,865,459)     |  | 8,881,614  |
| Options written at value (premiums received \$2,768,959) |  | 3,524,955  |
| Swap premiums received                                   |  | 764,809    |
| Investments purchased payable                            |  | 44,436,439 |
| Reverse repurchase agreements payable                    |  | 25,455,394 |
| Swaps payable                                            |  | 2,306,699  |
| Income dividends payable                                 |  | 214,007    |
| Investment advisory fees payable                         |  | 166,530    |

## Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

|                                     |        |
|-------------------------------------|--------|
| Interest expense payable            | 93,032 |
| Other affiliates payable            | 1,884  |
| Officers and Directors fees payable | 280    |
| Other liabilities                   | 45,646 |
| Other accrued expenses payable      | 77,832 |

|                   |            |
|-------------------|------------|
| Total liabilities | 99,735,314 |
|-------------------|------------|

### Net Assets

|            |                |
|------------|----------------|
| Net assets | \$ 214,651,585 |
|------------|----------------|

### Net Assets Consist of

|                                                                                                     |                |
|-----------------------------------------------------------------------------------------------------|----------------|
| Par value \$0.10 per share (200,000,000 shares authorized, 12,256,377 share issued and outstanding) | \$ 1,225,638   |
| Paid-in capital in excess of par                                                                    | 226,460,306    |
| Distributions in excess of net investment income                                                    | (332,586)      |
| Accumulated net realized gain                                                                       | 3,477,618      |
| Net unrealized appreciation/depreciation                                                            | (16,179,391)   |
|                                                                                                     | \$ 214,651,585 |
| Net assets \$17.51 net asset value per share                                                        |                |

See Notes to Financial Statements.

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JUNE 30, 2008

## Statement of Operations

**Six Months Ended June 30, 2008 (Unaudited)**

### Investment Income

|                                                |              |
|------------------------------------------------|--------------|
| Interest (including \$139,838 from affiliates) | \$ 7,296,536 |
| Dividends                                      | 54,184       |
| Total income                                   | 7,350,720    |

# Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

## Expenses

|                                           |           |
|-------------------------------------------|-----------|
| Investment advisory                       | 932,516   |
| Professional                              | 32,693    |
| Accounting services                       | 24,083    |
| Printing                                  | 22,961    |
| Repurchase offer                          | 19,610    |
| Officer and Directors                     | 12,275    |
| Transfer agent                            | 9,662     |
| Custodian                                 | 9,359     |
| Registration                              | 4,646     |
| Miscellaneous                             | 19,854    |
| Total expenses excluding interest expense | 1,087,659 |
| Interest expense                          | 162,989   |
| Total expenses                            | 1,250,648 |
| Less fees paid indirectly                 | (1,939)   |
| Total expenses after fees paid indirectly | 1,248,709 |
| Net investment income                     | 6,102,011 |

## Realized and Unrealized Gain (Loss)

|                                                             |                     |
|-------------------------------------------------------------|---------------------|
| Net realized gain (loss) from:                              |                     |
| Investments                                                 | (173,108)           |
| Futures and swaps                                           | 1,849,091           |
| TBA sale commitments                                        | 34,624              |
| Options written                                             | 554,688             |
|                                                             | 2,265,295           |
| Net change in unrealized appreciation/depreciation on:      |                     |
| Investments                                                 | (3,044,345)         |
| Futures and swaps                                           | (1,625,220)         |
| TBA sale commitments                                        | 341,611             |
| Options written                                             | 3,531,914           |
|                                                             | (796,040)           |
| Total realized and unrealized gain                          | 1,469,255           |
| <b>Net Increase in Net Assets Resulting from Operations</b> | <b>\$ 7,571,266</b> |

# Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

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## Statements of Changes in Net Assets

|                                                                                                           | Six Months<br>Ended<br>June 30, 2008<br>(Unaudited) | Year Ended<br>December 31,<br>2007 |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------|
| <b>Increase (Decrease) in Net Assets:</b>                                                                 |                                                     |                                    |
| <b>Operations</b>                                                                                         |                                                     |                                    |
| Net investment income                                                                                     | \$ 6,102,011                                        | \$ 10,723,561                      |
| Net realized gain                                                                                         | 2,265,295                                           | 9,914,357                          |
| Net change in unrealized appreciation/depreciation                                                        | (796,040)                                           | (15,718,098)                       |
| Net increase in net assets resulting from operations                                                      | 7,571,266                                           | 4,919,820                          |
| <b>Dividends and Distributions to Shareholders From</b>                                                   |                                                     |                                    |
| Net investment income                                                                                     | (6,434,597) <sup>1</sup>                            | (8,505,077)                        |
| Net realized gain                                                                                         |                                                     | (10,461,366)                       |
| Decrease in net assets resulting from dividends and distributions to shareholders                         | (6,434,597)                                         | (18,966,443)                       |
| <b>Capital Share Transactions</b>                                                                         |                                                     |                                    |
| Reinvestment of dividends and distributions                                                               |                                                     | 2,604,860                          |
| Net redemption of Common Stock resulting from a repurchase offer (including \$219,324 of repurchase fees) |                                                     | (11,017,830)                       |
| Net decrease in net assets resulting from capital share transactions                                      |                                                     | (8,412,970)                        |
| <b>Net Assets</b>                                                                                         |                                                     |                                    |
| Total increase (decrease) in net assets                                                                   | 1,136,669                                           | (22,459,593)                       |
| Beginning of period                                                                                       | 213,514,916                                         | 235,974,509                        |
| End of period                                                                                             | \$ 214,651,585                                      | \$ 213,514,916                     |
| End of period distributions in excess of net investment income                                            | \$ (332,586)                                        |                                    |

# Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-CSRS

<sup>1</sup> A portion of the dividends from net investment income may be deemed a tax return of capital or net realized gain at fiscal year end.

See Notes to Financial Statements.

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JUNE 30, 2008

## Financial Highlights

|                                                         | Period              |              |          |                               |
|---------------------------------------------------------|---------------------|--------------|----------|-------------------------------|
|                                                         | Six Months Ended    | Year Ended   |          | October 31, 2005 <sup>1</sup> |
|                                                         | June 30, 2008       | 31, December |          | to December 31,               |
|                                                         | (Unaudited)         | 2007         | 2006     | 2005                          |
| <b>Per Share Operating Performance</b>                  |                     |              |          |                               |
| Net asset value, beginning of period                    | \$ 17.42            | \$ 18.50     | \$ 19.18 | \$ 19.10                      |
| Net investment income <sup>2</sup>                      | 0.50                | 0.84         | 0.78     | 0.13                          |
| Net realized and unrealized gain (loss)                 | 0.12                | (0.54)       | (0.06)   | 0.10                          |
| Net increase from investment operations                 | 0.62                | 0.30         | 0.72     | 0.23                          |
| Dividends and distributions from:                       |                     |              |          |                               |
| Net investment income                                   | (0.53) <sup>3</sup> | (0.62)       | (0.81)   | (0.10)                        |
| Net realized gain                                       |                     | (0.76)       | (0.03)   | (0.02)                        |
| Tax return of capital                                   |                     |              | (0.56)   |                               |
| Total dividends and distributions                       | (0.53)              | (1.38)       | (1.40)   | (0.12)                        |
| Capital charge with respect to issuance of Common Stock |                     |              | 4        | (0.03)                        |
| Net asset value, end of period                          | \$ 17.51            | \$ 17.42     | \$ 18.50 | \$ 19.18                      |
| Market price, end of period                             | \$ 16.85            | \$ 15.84     | \$ 18.54 | \$ 18.09                      |
| <b>Total Investment Return<sup>5</sup></b>              |                     |              |          |                               |
| Based on net asset value                                | 3.64% <sup>6</sup>  | 2.39%        | 4.08%    | 1.06% <sup>6</sup>            |
| Based on market price                                   | 9.69% <sup>6</sup>  | (7.10%)      | 10.59%   | (8.97%) <sup>6</sup>          |

**Ratios to Average Net Assets**

|                                                                          |                    |       |       |                    |
|--------------------------------------------------------------------------|--------------------|-------|-------|--------------------|
| Total expenses after fees paid indirectly and excluding interest expense | 0.99% <sup>7</sup> | 1.00% | 1.01% | 0.94% <sup>7</sup> |
| Total expenses after fees paid indirectly                                | 1.14% <sup>7</sup> | 1.48% | 1.01% | 0.94% <sup>7</sup> |
| Total expenses                                                           | 1.14% <sup>7</sup> | 1.48% | 1.01% | 0.94% <sup>7</sup> |
| Net investment income                                                    | 5.55% <sup>7</sup> | 4.67% | 4.18% | 3.89% <sup>7</sup> |

**Supplemental Data**

|                                 |                   |            |            |            |
|---------------------------------|-------------------|------------|------------|------------|
| Net assets, end of period (000) | \$ 214,652        | \$ 213,515 | \$ 235,975 | \$ 243,690 |
| Portfolio turnover              | 155% <sup>8</sup> | 254%       | 76%        | 20%        |

<sup>1</sup> Commencement of operations.

<sup>2</sup> Based on average shares outstanding.

<sup>3</sup> A portion of the dividends from net investment income may be deemed a tax return of capital or net realized gain at fiscal year end.

<sup>4</sup> Amount is less than \$(0.01) per share.

<sup>5</sup> Total investment returns based on market price, which can be significantly greater or lesser than the net asset value, may result in substantially different results.

Total investment returns exclude the effects of sales charges.

<sup>6</sup> Aggregate total investment return.

<sup>7</sup> Annualized.

<sup>8</sup> Includes TBA transactions; excluding these transactions the portfolio turnover would have been 31%.

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

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**Notes to Financial Statements (Unaudited)**

**1. Significant Accounting Policies:**

BlackRock Enhanced Government Fund, Inc. (the Fund) is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with account-

ing principles generally accepted in the United States of America, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis.

The following is a summary of significant accounting policies followed by the Fund:

**Valuation of Investments:** The Fund values its bond investments on the basis of last available bid price or current market quotations provided by dealers or pricing services selected under the supervision of the Fund's Board of Directors (the Board). In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments, various relationships observed in the market between investments, and calculated yield measures based on valuation technology commonly employed in the market for such investments. Investments in open-end investment companies are valued at net asset value each business day. Financial futures contracts traded on exchanges are valued at their last sale price. Swap agreements are valued by quoted fair values received daily by the Fund's pricing service. Short-term securities are valued at amortized cost.

Exchange-traded options are valued at the mean between the last bid and ask prices at the close of the options market in which the options trade. An exchange-traded option for which there is no mean price is valued at the last bid (long position) or ask (short position) price; if no bid or ask price is available, the prior day's price will be used unless it is determined that the prior day's price no longer reflects the fair value of the option. Over-the-counter (OTC) options are valued by an independent pricing service using a mathematical model which incorporates a number of market data factors.

In the event that application of these methods of valuation results in a price for an investment which is deemed not to be representative of the market value of such investment, the investment will be valued by a method approved by the Board as reflecting fair value (Fair Value Assets). When determining the price for Fair Value Assets, the investment advisor and/or sub-advisor seeks to determine the price that the Fund might reasonably expect to receive from the current sale of that asset in an arm's-length transaction. Fair value determinations shall be

based upon all available factors that the investment advisor and/or subadvisor deems relevant. The pricing of all Fair Value Assets is subsequently reported to the Board or a committee thereof.

**Derivative Financial Instruments:** The Fund may engage in various portfolio investment strategies to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and move-

ments in the securities markets. Losses may arise if the value of the contract decreases due to an unfavorable change in the price of the underlying security, or if the counterparty does not perform under the contract.

**Financial futures contracts** The Fund may purchase or sell financial futures contracts and options on such futures contracts. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as margin variation and are recognized by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

**Options** The Fund may purchase and write call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium received or paid). European options are exercised at maturity date only.

A call option gives the purchaser of the option the right (but not the obligation) to buy, and obligates the seller to sell (when the option is exercised), the underlying position at the exercise price at any time or at a specified time during the option period. A put option gives the holder the right to sell and obligates the writer to buy the underlying position at the exercise price at any time or at a specified time during the option period.

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JUNE 30, 2008

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## Notes to Financial Statements (continued)

**Swap options** Swap options (swaptions) are similar to options on securities except that instead of selling or purchasing the right to buy or sell a security, the writer or purchaser of the swap option is granting



or buying the right to enter into a previously agreed upon interest rate swap agreement at any time before the expiration of the option.

**Swaps** The Fund may enter into swap agreements, which are OTC contracts in which the Fund and a counterparty agree to make periodic net payments on a specified notional amount. These periodic payments received or made by the Fund are recorded in the accompanying Statement of Operations as realized gains or losses, respectively. Gains or losses are also realized upon termination of the swap agreements. Swaps are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). When the swap is terminated, the Fund will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Fund's basis in the contract, if any.

**Credit default swaps** The Fund may invest in credit default swaps, which are agreements in which one party pays fixed periodic payments to a counterparty in consideration for a guarantee from the counterparty to make a specific payment should a negative credit event take place.

**Interest rate swaps** Interest rate swaps are agreements in which one party pays a floating rate of interest on a notional principal amount and receives a fixed rate of interest on the same notional principal amount for a specified period of time. Alternatively, a party may pay a fixed rate and receive a floating rate. In more complex swaps, the notional principal amount may decline (or amortize) over time.

**Asset-Backed Securities:** The Fund may invest in asset-backed securities. Asset-backed securities are generally issued as pass-through certificates, which represent undivided fractional ownership interests in an underlying pool of assets, or as debt instruments, which are also known as collateralized obligations, and are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. The yield characteristics of certain asset-backed securities may differ from traditional debt securities. One such major difference is that all or a principal part of the obligations may be prepaid at any time because the underlying assets (i.e., loans) may be prepaid at any time. As a result, a decrease in interest rates in the market may result in increases in the level of prepayments as borrowers, particularly mortgagors, refinance and repay their loans.

An increased prepayment rate with respect to an asset-backed security subject to such a prepayment feature will have the effect of shortening the maturity of the security. If a Fund has purchased such an asset-backed security at a premium, a faster than anticipated prepayment rate could result in a loss of principal to the extent of the premium paid.

**Capital Trusts:** These securities are typically issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The securities can be structured as either fixed or adjustable coupon securities that can have either a perpetual or stated maturity date. Dividends can be deferred without creating an event of default or acceleration, although maturity cannot take place unless all cumulative payment obligations have been met. The deferral of payments does not affect the purchase or sale of these securities in the open market. Payments on these securities are treated as interest rather than dividends for Federal income tax purposes. These securities can have a rating that is slightly below that of the issuing company's senior debt securities.

**Mortgage-Backed Securities:** The Fund may purchase in the secondary market certain mortgage pass-through securities. There are a number of important differences among the agencies and instrumentalities of the U.S. Government that issue mortgage-related securities and among the securities that they issue. For example, mortgage-related securities guaranteed by the Government National Mortgage Association (GNMA) are guaranteed as to the timely payment of principal and interest by GNMA and such guarantee is backed by the full faith and credit of the United States. However, mortgage-related securities issued by the Federal National Mortgage Association (FNMA) include FNMA guaranteed Mortgage Pass-Through Certificates which are solely the obligations of the FNMA, are not backed by or entitled to the full faith and credit of the United States but are supported by the right of the issuer to borrow from the Treasury.

The Fund invests a significant portion of its assets in securities backed by commercial or residential mortgage loans or in issuers that hold mortgage and other asset-backed securities. Changes in economic conditions, including delinquencies and/or defaults or assets underlying these securities, can affect the value, income and/or liquidity of such positions.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

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## Notes to Financial Statements (continued)

**Mortgage Dollar Rolls:** The Fund may sell mortgage-backed securities for delivery in the current month and simultaneously contract to repurchase substantially similar (same type, coupon and maturity) securities on a

specific future date at an agreed-upon price. The market value of the securities that the Fund is required to purchase may decline below the agreed upon repurchase price of those securities. Pools of mortgages collateralizing those securities may have different prepayment histories than those sold. During the period between the sale and the repurchase, the Fund will not be entitled to receive interest and principal payments on the securities sold. Proceeds of the sale will be invested in additional instruments for the Fund, and the income from these investments will generate income for the Fund. If such income does not exceed the income, capital appreciation and gain or loss that would have been realized on the securities sold as part of the dollar roll, the use of this technique will diminish the investment performance of the Fund compared with what the performance would have been without the use of dollar rolls.

**Preferred Stock:** The Fund may invest in preferred stocks. Preferred stock has a preference over common stock in liquidation (and generally in receiving dividends as well) but is subordinated to the liabilities of the issuer in all respects. As a general rule, the market value of preferred stock with a fixed dividend rate and no conversion element varies inversely with interest rates and perceived credit risk, while the market price of convertible preferred stock generally also reflects some element of conversion value. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

**Reverse Repurchase Agreements:** The Fund may enter into reverse repurchase agreements with qualified third party broker-dealers. Interest on the value of the reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance and is included within the related liability on the Statement of Assets and Liabilities. At the time the Fund enters into a reverse repurchase agreement, it identifies for segregation certain liquid securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement. The Fund may utilize reverse repurchase agreements when it is anticipated that the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction.

Reverse repurchase agreements involve the risk that the market value of the securities retained in lieu of sale by a Fund may decline below the price of the securities the Fund has sold but is obligated to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to

enforce a Fund's obligations to repurchase the securities and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision.

**TBA Commitments:** The Fund may enter into to-be-announced ( TBA ) commitments to purchase or sell securities for a fixed price at a future date. TBA commitments are considered securities in themselves, and involve a risk of loss if the value of the security to be purchased or sold declines or increases prior to settlement date, which is in addition to the risk of decline in the value of the Fund's other assets. Unsettled TBA commitments are valued at the current market value of the underlying securities, according to the procedures described under Valuation of Investments.

**Segregation:** In cases in which the 1940 Act and the interpretive positions of the Securities and Exchange Commission ( SEC ) require that the Fund segregates assets in connection with certain investments (e.g., futures) or certain borrowings, the Fund will, consistent with certain interpretive letters issued by the SEC, designate on its books and records cash or other liquid debt securities having a market value at least equal to the amount that would otherwise be required to be physically segregated.

**Investment Transactions and Investment Income:** Investment transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Interest income is recognized on the accrual basis. The Fund amortizes all premiums and discounts on debt securities.

**Dividends and Distributions:** Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates. If the total dividends and distributions made in any tax year end exceeds net investment income and accumulated realized capital gains, a portion of the total distribution may be treated as a tax return of capital.

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JUNE 30, 2008

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## Notes to Financial Statements (continued)

**Income Taxes:** It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required. Under the applicable foreign tax laws, withholding taxes may be imposed on interest, dividends and capital gains at various rates.

The Fund files U.S. federal and various state and local tax returns. No income tax returns are currently under examination. The statute of limitations on the Fund's U.S. federal tax returns remains open for the years ended December 31, 2004 through December 31, 2006. The statute of limitations on the Fund's state and local tax returns may remain open for an additional year depending upon the jurisdiction.

**Recent Accounting Pronouncement:** In March 2008, Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (an amendment of FASB Statement No. 133 (FAS 161)) was issued and is effective for fiscal years beginning after November 15, 2008. FAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. The impact on the Fund's financial statement disclosures, if any, is currently being assessed.

**Deferred Compensation and BlackRock Closed-End Share Equivalent**

**Investment Plan:** Under the deferred compensation plan, approved by the Fund's Board, non-interested Directors (Independent Directors) may defer a portion of their annual complex-wide compensation. Deferred amounts earn an approximate return as though equivalent dollar amounts have been invested in common shares of other certain BlackRock Closed-End Funds selected by the Independent Directors. This has approximately the same economic effect for the Independent Directors as if the Independent Directors had invested the deferred amounts directly in other certain BlackRock Closed-End Funds.

The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of the Fund. The Fund may, however, elect to invest in common stock of other certain BlackRock Closed-End Funds selected by the Independent Directors in order to match its deferred compensation obligations.

**Other:** Expenses directly related to the Fund are charged to that Fund. Other operating expenses shared by several funds are pro-rated among those funds on the basis of relative net assets or other appropriate methods.

**2. Investment Advisory Agreement and Other Transactions with Affiliates:**

The Fund has entered into an Investment Advisory Agreement with BlackRock Advisors, LLC (the Advisor), an indirect, wholly owned subsidiary of BlackRock, Inc., to provide investment advisory and administration services. Merrill Lynch & Co., Inc. (Merrill Lynch) and The PNC Financial Services Group, Inc. (PNC) are principal owners of BlackRock, Inc.

The Advisor is responsible for the management of the Fund's portfolio and

provides the necessary personnel, facilities, equipment and certain other services necessary to the operation of the Fund. For such services, the Fund pays the Advisor a monthly fee at an annual rate of 0.85% of the average daily net assets of the Fund, plus the proceeds of any outstanding debt securities or borrowings used for leverage.

The Advisor has entered into a sub-advisory agreement with BlackRock Financial Management, Inc. ( BFM ), an affiliate of the Advisor, under which the Advisor pays BFM for services it provides, a monthly fee that is a percentage of the investment advisory fee paid by the Fund to the Advisor.

For the six months ended June 30, 2008, the Fund reimbursed the Advisor \$1,995 for certain accounting services, which is included in accounting services in the Statement of Operations.

Pursuant to terms of the custody agreement, custodian fees may be reduced by amounts calculated on uninvested cash balances ( custody credits ), which are on the Statement of Operations as fees paid indirectly.

Certain officers and/or directors of the Fund are officers and/or directors of BlackRock, Inc. or its affiliates.

### 3. Investments:

Purchases and sales of investments (including paydowns, TBA transactions and excluding short-term securities), for the six months ended June 30, 2008, were \$411,698,624 and \$429,050,834, respectively.

Transactions in put options written for the six months ended June 30, 2008 were as follows:

|                                                         | Contracts* | Premiums<br>Received |
|---------------------------------------------------------|------------|----------------------|
| Outstanding put options written,<br>beginning of period | 22         | \$1,258,129          |
| Options written                                         | 19         | 252,700              |
| Outstanding put options written, end<br>of period       | 41         | \$1,510,829          |

\* One contract includes a notional amount of \$1,000,000.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

## Notes to Financial Statements (concluded)

Transactions in call options written for the six months ended June 30, 2008 were as follows:

|                                                          | Contracts* | Premiums<br>Received |
|----------------------------------------------------------|------------|----------------------|
| Outstanding call options written,<br>beginning of period | 108        | \$2,462,117          |
| Options written                                          | 250,000    | 117,188              |
| Options expired                                          | (250,086)  | (1,321,175)          |
| Outstanding call options written, end<br>of period       | 22         | \$1,258,130          |

\* Some contracts include a notional amount of \$1,000,000.

### 4. Reverse Repurchase Agreements:

For the six months ended June 30, 2008, the Fund's average amount of reverse repurchase agreements outstanding was approximately \$23,774,000 and the daily weighted average interest rate was 1.38%.

### 5. Capital Share Transactions:

The Fund is authorized to issue 200,000,000 shares of capital stock, par value \$0.10, all of which were initially classified as Common Stock. The Board is authorized, however, to classify and reclassify any unissued shares of capital stock without approval of the holders of Common Stock.

Shares issued and outstanding during the six months ended June 30, 2008 remained constant and during the year ended December 31, 2007 increased by 143,199 as a result of dividend reinvestment and decreased by 645,072 as a result of a repurchase offer.

The Fund will make offers to repurchase its shares at (approximately 12-month) intervals. The shares tendered in the repurchase offer may be subject to a repurchase fee retained by the Fund to compensate the Fund for expenses directly related to the repurchase offer.

### 6. Subsequent Event:

The Fund paid a dividend in the amount of \$0.105000 per share on July 31, 2008 to shareholders of record on July 15, 2008.  
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JUNE 30, 2008

## Disclosure of Investment Advisory Agreement and Subadvisory Agreement

The Board of Directors (the Board, the members of which are referred to as Directors ) of the BlackRock Enhanced Government Fund, Inc. (the Fund ) met in April and May 2008 to consider approving the continuation of the Fund's investment advisory agreement (the Advisory Agreement ) with BlackRock Advisors, LLC (the Advisor ), the Fund's investment adviser. The Board also considered the approval of the Fund's subadvisory agreement (the Subadvisory Agreement and, together with the Advisory Agreement, the Agreements ) between the Advisor and BlackRock Financial Management, Inc. (the Subadvisor ). The Advisor and the Subadvisor are collectively referred to herein as the Advisors and, together with BlackRock, Inc., BlackRock.

### Activities and Composition of the Board

The Board of Directors of the Fund consists of thirteen individuals, eleven of whom are not interested persons of the Fund as defined in the Investment Company Act of 1940 (the 1940 Act ) (the Independent Directors ). The Directors are responsible for the oversight of the operations of the Fund and perform the various duties imposed on the directors of investment companies by the 1940 Act. The Independent Directors have retained independent legal counsel to assist them in connection with their duties. The Chairman of the Board is an Independent Director. The Board has established four standing committees: an Audit Committee, a Governance and Nominating Committee, a Compliance Committee and a Performance Oversight Committee.

### Advisory Agreement and Subadvisory Agreement

Upon the consummation of the combination of BlackRock, Inc.'s investment management business with Merrill Lynch & Co., Inc.'s investment management business, including Merrill Lynch Investment Managers, L. P., and certain affiliates, the Fund entered into the Advisory Agreement and the Subadvisory Agreement, each with an initial two-year term. Consistent with the 1940 Act, after the Advisory Agreement's and Subadvisory Agreement's respective initial two-year term, the Board is required to consider the continuation of the Fund's Advisory Agreement and Subadvisory Agreement on an annual basis. In connection with this process, the Board assessed, among other things, the nature, scope and quality of the services provided to the Fund by the personnel of BlackRock and its affiliates, including investment advisory services, administrative services, secondary market support services, oversight of fund accounting and custody, and assistance in meeting legal and regulatory requirements. The Board also received and assessed information regarding the services provided to the Fund by certain unaffiliated service providers.



Throughout the year, the Board also considered a range of information in connection with its oversight of the services provided by BlackRock and its affiliates. Among the matters the Board considered were: (a) investment performance for one-, three- and five-year periods, as

applicable, against peer funds, as well as senior management and portfolio managers' analysis of the reasons for underperformance, if applicable; (b) fees, including advisory, administration and other fees paid to BlackRock and its affiliates by the Fund, as applicable; (c) Fund operating expenses paid to third parties; (d) the resources devoted to and compliance reports relating to the Fund's investment objective, policies and restrictions; (e) the Fund's compliance with its Code of Ethics and compliance policies and procedures; (f) the nature, cost and character of non-investment management services provided by BlackRock and its affiliates; (g) BlackRock's and other service providers' internal controls; (h) BlackRock's implementation of the proxy voting guidelines approved by the Board; (i) execution quality; (j) valuation and liquidity procedures; and (k) reviews of BlackRock's business, including BlackRock's response to the increasing scale of its business.

#### **Board Considerations in Approving the Advisory Agreement and Subadvisory Agreement**

To assist the Board in its evaluation of the Agreements, the Directors received information from BlackRock in advance of the April 22, 2008 meeting which detailed, among other things, the organization, business lines and capabilities of the Advisors, including: (a) the responsibilities of various departments and key personnel and biographical information relating to key personnel; (b) financial statements for BlackRock; (c) the advisory and/or administrative fees paid by the Fund to the Advisors, including comparisons, compiled by Lipper, Inc. ( "Lipper" ), an independent third party, with the management fees, which include advisory and administration fees, of funds with similar investment objectives ( "Peers" ); (d) the profitability of BlackRock and certain industry profitability analyses for advisers to registered investment companies; (e) the expenses of BlackRock in providing various services; (f) non-investment advisory reimbursements, if applicable, and fallout benefits to BlackRock; (g) economies of scale, if any, generated through the Advisors' management of all of the BlackRock closed-end funds (the "Fund Complex" ); (h) the expenses of the Fund, including comparisons of the Fund's expense ratios (both before and after any fee waivers) with the expense ratios of its Peers; (i) an internal comparison of management fees classified by Lipper, if applicable; and (j) the Fund's performance for the past one-, three- and five-year periods, as applicable, as well as the Fund's performance compared to its Peers.

The Board also considered other matters it deemed important to the approval process, where applicable, such as payments made to BlackRock or its affiliates relating to the distribution of Fund shares, services related to the valuation and pricing of Fund portfolio holdings,

and direct and indirect benefits to BlackRock and its affiliates from their relationship with the Fund.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

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## Disclosure of Investment Advisory Agreement and Subadvisory Agreement (continued)

In addition to the foregoing materials, independent legal counsel to the Independent Directors provided a legal memorandum outlining, among other things, the duties of the Board under the 1940 Act, as well as the general principles of relevant law in reviewing and approving advisory contracts, the requirements of the 1940 Act in such matters, an adviser's fiduciary duty with respect to advisory agreements and compensation, and the standards used by courts in determining whether investment company boards of directors have fulfilled their duties and the factors to be considered by boards in voting on advisory agreements.

The Independent Directors reviewed this information and discussed it with independent legal counsel prior to the meeting on April 22, 2008. At the Board meeting on April 22, 2008, BlackRock made a presentation to and responded to questions from the Board. Following the meeting on April 22, 2008, the Board presented BlackRock with questions and requests for additional information. BlackRock responded to these requests with additional written materials provided to the Directors prior to the meetings on May 29 and 30, 2008. At the Board meetings on May 29 and 30, 2008, BlackRock responded to further questions from the Board. In connection with BlackRock's presentations, the Board considered each Agreement and, in consultation with independent legal counsel, reviewed the factors set out in judicial decisions and Securities and Exchange Commission (SEC) statements relating to the renewal of the Agreements.

### **Matters Considered by the Board**

In connection with its deliberations with respect to the Agreements, the Board considered all factors it believed relevant with respect to the Fund, including the following: the nature, extent and quality of the services provided by the Advisors; the investment performance of the Fund; the costs of the services to be provided and profits to be realized by the Advisors and their affiliates from their relationship with the Fund; the extent to which economies of scale would be realized as the Fund Complex grows; and whether BlackRock realizes other benefits from its relationship with the Fund.

**A. Nature, Extent and Quality of the Services:** In evaluating the nature, extent and quality of the Advisors' services, the Board reviewed information concerning the types of services that the Advisors provide and are expected to provide to the Fund, narrative and statistical information concerning the Fund's performance record and how such performance compares to the Fund's Peers, information describing BlackRock's organization and its various departments, the experience and responsibilities of key personnel and available resources. The Board noted the willingness of the personnel of BlackRock to engage in open, candid discussions with the Board. The Board further considered the quality of the Advisors' investment process in making portfolio management decisions.

In addition to advisory services, the Directors considered the quality of the administrative and non-investment advisory services provided to the Fund. The Advisors and their affiliates provided the Fund with such administrative and other services, as applicable (in addition to any such services provided by others for the Fund), and officers and other personnel as are necessary for the operations of the Fund. In addition to investment management services, the Advisors and their affiliates provided the Fund with services such as: preparing shareholder reports and communications, including annual and semi-annual financial statements and the Fund's website; communications with analysts to support secondary market trading; assisting with daily accounting and pricing; preparing periodic filings with regulators and stock exchanges; overseeing and coordinating the activities of other service providers; administering and organizing Board meetings and preparing the Board materials for such meetings; providing legal and compliance support (such as helping to prepare proxy statements and responding to regulatory inquiries); and performing other Fund administrative tasks necessary for the operation of the Fund (such as tax reporting and fulfilling regulatory filing requirements). The Board considered the Advisors' policies and procedures for assuring compliance with applicable laws and regulations.

**B. The Investment Performance of the Fund and BlackRock:** As previously noted, the Board received performance information regarding the Fund and its Peers. Among other things, the Board received materials reflecting the Fund's historic performance and the Fund's performance compared to its Peers. More specifically, the Fund's one-, three- and five-year total returns (as applicable) were evaluated relative to its Peers (including the Peers' median performance).

The Board reviewed a narrative and statistical analysis of the Lipper data that was prepared by BlackRock, which analyzed various factors that affect Lipper rankings.

The Board noted that the Fund performed below the median of its respective Peers for the one-year and since inception periods reported. The Board then discussed with representatives of BlackRock the reasons for the Fund's underperformance during these periods compared with its Peers. The Board noted that although the Fund underperformed its

Peers, the Fund, unlike its Peers, sells call options against a high percentage of its portfolio, which provides attractive income but caps market participation in a falling interest rate environment. The Board concluded that BlackRock was committed to providing the resources necessary to assist the portfolio managers and to continue improving the Fund's performance. Based on its review, the Board generally was satisfied with BlackRock's efforts to manage the Fund.

After considering this information, the Boards concluded that the performance of the Fund, in light of and after considering the other facts and circumstances applicable to the Fund, supports a conclusion that the Fund's Agreements should be renewed.

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JUNE 30, 2008

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## Disclosure of Investment Advisory Agreement and Subadvisory Agreement (continued)

**C. Consideration of the Advisory Fees and the Cost of the Services and Profits to be Realized by BlackRock and its Affiliates from their Relationship with the Fund:** In evaluating the management fees and expenses that a Fund is expected to bear, the Board considered the Fund's current management fee structure and the Fund's expense ratios in absolute terms as well as relative to the fees and expense ratios of its applicable Peers. The Board, among other things, reviewed comparisons of the Fund's gross management fees before and after any applicable reimbursements and fee waivers and total expense ratios before and after any applicable waivers with those of applicable Peers. The Board also reviewed a narrative analysis of the Peer rankings prepared by Lipper and summarized by BlackRock at the request of the Board. This summary placed the Peer rankings into context by analyzing various factors that affect these comparisons.

The Board noted that, although the Fund pays contractual management fees that are higher than the median of its Peers, the Fund is the only one of its Peers that employs a unique option writing strategy and that its Peers do not employ similar option writing strategies.

The Board also compared the management fees charged and services provided by the Advisors to closed-end funds in general versus other types of clients (such as open-end investment companies and separately managed institutional accounts) in similar investment categories. The Board noted certain differences in services provided and costs incurred by the Advisor with respect to closed-end funds compared to these other types of clients and the reasons for such differences.

In connection with the Board's consideration of the fees and expense information, the Board reviewed the considerable investment manage-

ment experience of the Advisors and considered the high level of investment management, administrative and other services provided by the Advisors. In light of these factors and the other facts and circumstances applicable to the Fund, the Board concluded that the fees paid and level of expenses incurred by the Fund under its Agreements support a conclusion that the Fund's Agreements should be renewed.

**D. Profitability of BlackRock:** The Board also considered BlackRock's profitability in conjunction with its review of fees. The Board reviewed BlackRock's profitability with respect to the Fund Complex and other fund complexes managed by the Advisors. In reviewing profitability, the Board recognized that one of the most difficult issues in determining profitability is establishing a method of allocating expenses. The Board also reviewed BlackRock's assumptions and methodology of allocating expenses, noting the inherent limitations in allocating costs among various advisory products. The Board also recognized that individual

fund or product line profitability of other advisors is generally not publicly available.

The Board recognized that profitability may be affected by numerous factors including, among other things, the types of funds managed, expense allocations and business mix, and therefore comparability of profitability is somewhat limited. Nevertheless, to the extent available, the Board considered BlackRock's operating margin compared to the operating margin estimated by BlackRock for a leading investment management firm whose operations consist primarily of advising closed-end funds. The comparison indicated that BlackRock's operating margin was approximately the same as the operating margin of such firm.

In evaluating the reasonableness of the Advisors' compensation, the Board also considered any other revenues paid to the Advisors, including partial reimbursements paid to the Advisors for certain non-investment advisory services, if applicable. The Board noted that these payments were less than the Advisors' costs for providing these services. The Board also considered indirect benefits (such as soft dollar arrangements) that the Advisors and their affiliates are expected to receive which are attributable to their management of the Fund.

The Board concluded that BlackRock's profitability, in light of all the other facts and circumstances applicable to the Fund, supports a conclusion that the Fund's Agreements should be renewed.

**E. Economies of Scale:** In reviewing the Fund's fees and expenses, the Board examined the potential benefits of economies of scale, and whether any economies of scale should be reflected in the Fund's fee structure, for example through the use of breakpoints for the Fund or the Fund Complex. In this regard, the Board reviewed information provided by BlackRock, noting that most closed-end fund complexes do not have fund-level breakpoints because closed-end funds generally do not expe-

rience substantial growth after their initial public offering and each fund is managed independently consistent with its own investment objectives. The Board noted that only three closed-end funds in the Fund Complex have breakpoints in their fee structures. Information provided by Lipper also revealed that only one closed-end fund complex used a complex-level breakpoint structure. The Board found, based on its review of comparable funds, that the Fund's management fee is appropriate in light of the scale of the Fund.

**F. Other Factors:** In evaluating fees, the Board also considered indirect benefits or profits the Advisors or their affiliates may receive as a result of their relationships with the Fund (fall-out benefits). The Directors, including the Independent Directors, considered the intangible benefits that accrue to the Advisors and their affiliates by virtue of their relationships with the Fund, including potential benefits accruing to the Advisors and their affiliates as a result of participating in offerings of the Fund's shares, potentially stronger relationships with members of the broker-

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

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## Disclosure of Investment Advisory Agreement and Subadvisory Agreement (concluded)

dealer community, increased name recognition of the Advisors and their affiliates, enhanced sales of other investment funds and products

sponsored by the Advisors and their affiliates and increased assets under management which may increase the benefits realized by the Advisors from soft dollar arrangements with broker-dealers. The Board also considered the unquantifiable nature of these potential benefits.

### Conclusion with Respect to the Agreements

In reviewing the Agreements, the Directors did not identify any single factor discussed above as all-important or controlling and different Directors may have attributed different weights to the various factors considered. The Directors, including the Independent Directors, unanimously determined that each of the factors described above, in light of all the other factors and all of the facts and circumstances applicable to the Fund, was acceptable for the Fund and supported the Directors' conclusion that the terms of each Agreement were fair and reasonable, that the Fund's fees are reasonable in light of the services provided to the Fund and that each Agreement should be approved.

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JUNE 30, 2008

## Officers and Directors

Richard E. Cavanagh, Chairman of the Board and Director  
Karen . Robards, Vice Chair of the Board, Chair of the  
Audit Committee and Director  
G. Nicholas Beckwith, III, Director  
Richard S. Davis, Director  
Kent Dixon, Director  
Frank J. Fabozzi, Director  
Kathleen F. Feldstein, Director  
James T. Flynn, Director  
Henry Gabbay, Director  
Jerrold B. Harris, Director  
R. Glenn Hubbard, Director  
W. Carl Kester, Director  
Robert S. Salomon, Jr., Director  
Donald C. Burke, Fund President and Chief Executive Officer  
Anne F. Ackerley, Vice President  
Neal J. Andrews, Chief Financial Officer  
Jay M. Fife, Treasurer  
Brian . Kindelan, Chief Compliance Officer of the Fund  
Howard Surloff, Secretary

### **Custodian**

State Street Bank and Trust Company  
Boston, MA 02101

### **Transfer Agent**

BNY Mellon Shareowner Services  
Jersey City, NJ 07310

### **Accounting Agent**

State Street Bank and Trust Company  
Princeton, NJ 08540

### **Independent Registered Public Accounting Firm**

Deloitte & Touche LLP  
Princeton, NJ 08540

### **Legal Counsel**

Skadden, Arps, Slate, Meagher & Flom LLP  
New York, NY 10036

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

JUNE 30, 2008

## Additional Information

### Fundamental Periodic Repurchase Policy

The Board approved a fundamental policy whereby the Fund has adopted an interval fund structure pursuant to Rule 23c-3 under the 1940 Act. As an interval fund, the Fund will make annual repurchase offers at net asset value (less repurchase fee not to exceed 2%) to all Fund shareholders. The percentage of outstanding shares that the Fund can repurchase in each offer will be established by the Board shortly before the commencement of each offer, and will be between 5% and 25% of the Fund's then outstanding shares.

The Fund has adopted the following fundamental policy regarding periodic repurchases:

- (a) The Fund will make repurchase offers at periodic intervals pursuant to Rule 23c-3 under the 1940 Act.
- (b) The periodic interval between repurchase request deadlines will be approximately 12 months.
- (c) The repurchase request deadline for each repurchase offer will be 14 days prior to the second Friday in December; provided, that in the event that such day is not a business day, the repurchase request deadline will be the subsequent business day.
- (d) The maximum number of days between a repurchase request deadline and the next repurchase pricing date will be 14 days; provided that if the 14<sup>th</sup> day after a repurchase request deadline is not a business day, the repurchase pricing date shall be the next business day.

The Board may place such conditions and limitations on a repurchase offer as may be permitted under Rule 23c-3. Repurchase offers may be suspended or postponed under certain circumstances, as provided in Rule 23c-3.

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JUNE 30, 2008

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## Additional Information (continued)

### General Information

The Fund does not make available copies of its Statement of Additional Information because the Fund's shares are not continuously offered, which means that the Statement of Additional Information of the Fund has not been updated after completion of the Fund's offering and the information contained in the Fund's Statement of Additional Information may have become outdated.

During the period, there were no material changes in the Fund's investment objectives or policies or to the Fund's charter or by-laws that were not approved by the shareholders or in the principal risk factors associated with investment in the Fund. There have been no changes in the persons who are primarily responsible for the day-to-day management of the Fund's portfolio.



The Fund will mail only one copy of shareholder documents, including annual and semi-annual reports and proxy statements, to shareholders with multiple accounts at the same address. This practice is commonly called "householding" and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be househanded indefinitely unless you instruct us otherwise. If you do not want the mailing of these documents to be combined with those for other members of your household, please contact the Fund at (800) 441-7762.

Quarterly performance, semi-annual and annual reports and other information regarding the Fund may be found on BlackRock's website, which can be accessed at <http://www.blackrock.com>. This reference to BlackRock's website is intended to allow investors public access to information regarding the Fund and does not, and is not intended to, incorporate BlackRock's website into this report.

#### **Availability of Quarterly Schedule of Investments**

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's

Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's Forms N-Q may also be obtained upon request and without charge by calling (800) 441-7762.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

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## **Additional Information (continued)**

### **Electronic Delivery**

Electronic copies of most financial reports are available on the Fund's website. Shareholders can sign up for e-mail notifications of quarterly statements, annual and semi-annual reports and prospectuses by enrolling in the Fund's electronic delivery program.

### **Shareholders Who Hold Accounts with Investment Advisors, Banks or Brokerages:**

Please contact your financial advisor. Please note that not all investment

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advisors, banks or brokerages may offer this service.

### Section 19 Notice

The amounts and sources of distributions reported are only estimates and are not being provided for tax reporting purposes. The actual amount and source for tax reporting purposes will depend upon the Fund's investment experience during the remainder of its fiscal year and may be subject to changes based on the tax regulations. The Fund will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes.

|                                             | Total Fiscal Year to Date<br>Cumulative Distributions by Character |                                     |                         |                              | Percentage of Fiscal Year to Date<br>Cumulative Distributions by Character |                                     |                         |                              |
|---------------------------------------------|--------------------------------------------------------------------|-------------------------------------|-------------------------|------------------------------|----------------------------------------------------------------------------|-------------------------------------|-------------------------|------------------------------|
|                                             | Net<br>Investment<br>Income                                        | Net<br>Realized<br>Capital<br>Gains | Return<br>of<br>Capital | Total Per<br>Common<br>Share | Net<br>Investment<br>Income                                                | Net<br>Realized<br>Capital<br>Gains | Return<br>of<br>Capital | Total Per<br>Common<br>Share |
| BlackRock Enhanced Government<br>Fund, Inc. | \$0.525000                                                         |                                     |                         | \$0.525000                   | 100%                                                                       |                                     |                         | 100%                         |

### BlackRock Privacy Principles

BlackRock is committed to maintaining the privacy of its current and former fund investors and individual clients (collectively, "Clients") and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information BlackRock collects, how we protect that information and why in certain cases we share such information with select parties.

If you are located in a jurisdiction where specific laws, rules or regulations require BlackRock to provide you with additional or different privacy-related rights beyond what is set forth below, then BlackRock will comply with those specific laws, rules or regulations.

BlackRock obtains or verifies personal non-public information from and about you from different sources, including the following: (i) information we receive from you or, if applicable, your financial intermediary, on applications, forms or other documents; (ii) information about your transactions with us, our affiliates, or others; (iii) information we receive from a consumer reporting agency; and (iv) from visits to our websites.

BlackRock does not sell or disclose to non-affiliated third parties any non-public personal information about its Clients, except as permitted by law or as is necessary to respond to regulatory requests or to service Client accounts. These non-affiliated third parties are required to protect the confidentiality and security of this information and to use it only for its intended purpose.

We may share information with our affiliates to service your account or to provide you with information about other BlackRock products or services that may be of interest to you. In addition, BlackRock restricts access to non-public personal information about its Clients to those BlackRock employees with a legitimate business need for the information. BlackRock maintains physical, electronic and procedural safeguards that are designed to protect the non-public personal information of its Clients, including procedures relating to the proper storage and disposal of such information.

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JUNE 30, 2008

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## Additional Information (concluded)

### Proxy Voting Policy

The Board of Directors of the Fund has delegated the voting of proxies for Fund securities to the Advisor pursuant to the Advisor's proxy voting guidelines. Under these guidelines, the Advisor will vote proxies related to Fund securities in the best interests of the Fund and its stockholders. From time to time, a vote may present a conflict between the interests of the Fund's stockholders, on the one hand, and those of the Advisor, or any affiliated person of the Fund or the Advisor, on the other. In such event, provided that the Advisor's Equity Investment Policy Oversight Committee, or a sub-committee thereof (the Committee) is aware of the real or potential conflict or material non-routine matter and if the Committee

does not reasonably believe it is able to follow its general voting guidelines (or if the particular proxy matter is not addressed in the guidelines) and vote impartially, the Committee may retain an independent fiduciary to advise the Committee on how to vote or to cast votes on behalf of the Advisor's clients. If the Advisor determines not to retain an independent fiduciary, or does not desire to follow the advice of such independent fiduciary, the Committee shall determine how to vote the proxy after consulting with the Advisor's Portfolio Management Group and/or the Advisor's Legal and Compliance Department and concluding that the vote cast is in its client's best interest notwithstanding the conflict.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

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This report is transmitted to shareholders only. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance.

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Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free (800) 441-7762; (2) at [www.blackrock.com](http://www.blackrock.com); and (3) on the Securities and Exchange Commission's website at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available upon request and without charge (1) at [www.blackrock.com](http://www.blackrock.com) or by calling (800) 441-7762 and (2) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

BlackRock Enhanced Government Fund, Inc.  
100 Bellevue Parkway  
Wilmington, DE 19809

#EGF-06/08

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Item 2 Code of Ethics Not Applicable to this semi-annual report

Item 3 Audit Committee Financial Expert Not Applicable to this semi-annual report

Item 4 Principal Accountant Fees and Services Not Applicable to this semi-annual report

Item 5 Audit Committee of Listed Registrants Not Applicable to this semi-annual report

Item 6 Investments

(a) The registrant's Schedule of Investments is included as part of the Report to Stockholders filed under Item 1 of this form.

(b) Not Applicable due to no such divestments during the semi-annual period covered since the previous Form N-CSR filing.

Item 7 Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies Not Applicable to this semi-annual report

Item 8 Portfolio Managers of Closed-End Management Investment Companies Not Applicable to this semi-annual report

Item 9 Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers Not Applicable

Item 10 Submission of Matters to a Vote of Security Holders The registrant's Nominating and Governance Committee will consider nominees to the board of directors recommended by shareholders when a vacancy becomes available. Shareholders who wish to recommend a nominee should send nominations which include biographical information and set forth the qualifications of the proposed nominee to the registrant's Secretary. There have been no

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material changes to these procedures.

### Item 11 Controls and Procedures

11(a) The registrant's principal executive and principal financial officers or persons performing similar functions have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.

11(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### Item 12 Exhibits attached hereto

12(a)(1) Code of Ethics Not Applicable to this semi-annual report

12(a)(2) Certifications Attached hereto

12(a)(3) Not Applicable

12(b) Certifications Attached hereto

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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BlackRock Enhanced Government Fund, Inc.

By: /s/ Donald C. Burke

Donald C. Burke

Chief Executive Officer of

BlackRock Enhanced Government Fund, Inc.

Date: August 22, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Donald C. Burke

Donald C. Burke

Chief Executive Officer (principal executive officer) of

BlackRock Enhanced Government Fund, Inc.

Date: August 22, 2008

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By: /s/ Neal J. Andrews

Neal J. Andrews

Chief Financial Officer (principal financial officer) of  
BlackRock Enhanced Government Fund, Inc.

Date: August 22, 2008

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