

BlackRock Enhanced Government Fund, Inc.
Form N-CSR
March 06, 2008

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

FORM N-CSR

**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: 12/31/2007

Date of reporting period: 01/01/2007 - 12/31/2007

Item 1 Report to Stockholders

EQUITIES FIXED INCOME REAL ESTATE LIQUIDITY ALTERNATIVES BLACKROCK SOLUTIONS

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

ANNUAL REPORT | DECEMBER 31, 2007
NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

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DECEMBER 31, 2007

A Letter to Shareholders

Dear Shareholder

Financial markets endured heightened volatility during 2007, culminating in mixed results for some of the major benchmark indexes:

Total Returns as of December 31, 2007	6-month	12-month
U.S. equities (S&P 500 Index)	1.37%	+ 5.49%
Small cap U.S. equities (Russell 2000 Index)	7.53	1.57
International equities (MSCI Europe, Australasia, Far East Index)	+0.39	+11.17
Fixed income (Lehman Brothers U.S. Aggregate Bond Index)	+5.93	+ 6.97
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	+3.22	+ 3.36
High yield bonds (Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index)	0.67	+ 2.27

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

Subprime mortgage woes dominated headlines for much of 2007, spawning a widespread liquidity and credit crisis with ramifications across global markets. The Federal Reserve Board (the Fed) stepped in to inject liquidity into the markets and bolster investor confidence, cutting the federal funds rate by 0.50% in September, 0.25% in October and 0.25% in December, which brought the target short-term interest rate to 4.25%. In taking action, the central bankers, who had long deemed themselves inflation fighters, were seeking to stem the fallout from the credit crunch and forestall a wider economic unraveling.

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Amid the volatility, equity markets displayed surprising resilience. Market fundamentals generally held firm, dividend payouts and share buybacks continued, and valuations remained attractive. To some extent, the credit turmoil dampened corporate merger-and-acquisition (M&A) activity, a key source of strength for equity markets, but 2007 remained a record year for global M&A nonetheless. As the returns indicate, the most recent six months were more trying, reflecting the slowing U.S. economy, a troubled housing market and a more difficult corporate earnings backdrop. Overall, large cap stocks outperformed small caps as investors grew increasingly risk averse. International markets fared better than their U.S. counterparts, benefiting from generally stronger economies.

In fixed income markets, mixed economic signals and subprime fallout resulted in a flight to quality. Investors shunned bonds associated with the housing and credit markets in favor of higher-quality Treasury issues. The yield on 10-year Treasury issues, which touched 5.30% in June (its highest level in five years), fell to 4.04% by year-end, while prices correspondingly rose. The tax-exempt bond market waffled amid the economic uncertainty and concerns around the credit worthiness of bond insurers, but set a new-issuance record in 2007. A drop in municipal bond prices created buying opportunities, and the heightened supply was generally well absorbed.

As you navigate the uncertainties inherent in the financial markets, we encourage you to start the year by reviewing your investment goals with your financial professional and making portfolio changes, as needed. For more reflection on 2007 and our 10 predictions for 2008, please ask your financial professional for a copy of *What's Ahead in 2008: An Investment Perspective*, or view it online at 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 new year and beyond.

THIS PAGE NOT PART OF YOUR FUND REPORT

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Fund Summary as of December 31, 2007

Investment Objective

BlackRock Enhanced Government Fund, Inc. (EGF) 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.

Fund Information

Symbol on New York Stock Exchange	EGF
Initial Offering Date	October 31, 2005
Yield on Closing Market Price as of December 31, 2007 (\$15.84)*	7.95%
Current Monthly Distribution per share of Common Stock**	\$.105
Current Annualized Distribution per share of Common Stock**	\$1.26
Leverage as of December 31, 2007***	9%

* 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.

** 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.

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*** As a percentage of net 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:

	12/31/07	12/31/06	Change	High	Low
Market Price	\$15.84	\$18.54	(14.56%)	\$20.06	\$15.53
Net Asset Value	\$17.42	\$18.50	(5.84%)	\$18.56	\$17.37

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

Portfolio Composition

	12/31/07	12/31/06
Government Agency Mortgage-Backed Securities	67%	61%
Government Agency Mortgage-Backed Securities – Collateralized Mortgage Obligations	14	
Non-Government Agency Mortgage-Backed Securities	6	11
Asset-Backed Securities	4	
Preferred Securities	3	
Corporate Bonds	2	
Government & Agency Obligations	2	28
Other*	2	

* Includes portfolio holdings in options purchased.

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DECEMBER 31, 2007

Schedule of Investments as of December 31, 2007

(in U.S.
dollars)

Issue	Face Amount	Interest Rate	Maturity Date(s)	Value
Government & Agency Obligations 3.3%				
Federal Farm Credit Bank	\$ 3,500,000	4.55 %	6/08/2020 (h)	\$ 3,453,506
Federal Home Loan Bank	3,525,000	5.40	10/27/2011 (h)(i)	3,568,319
Total Government & Agency Obligations (Cost \$6,844,719) 3.3%				7,021,825

Government Agency Mortgage-Backed Securities 92.7%**

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Fannie Mae Guaranteed Pass Through

Certificates	8,400,000	4.50	1/15/2023 (f)	8,266,121
	1,904,425	4.66	7/01/2010	1,918,727
	5,975,307	4.681	2/01/2013	6,070,058
	59,200,344	5.00	11/01/2033 1/15/2038 (f)(h)	57,795,045
	7,939,300	5.24	4/01/2012	8,158,896
	5,663,896	5.284	10/01/2035 (a)	5,692,392
	49,117,247	5.50	1/15/2023 1/15/2038 (f)	49,123,620
	2,651,727	5.707	2/01/2012	2,791,065
	19,460,501	6.00	7/01/2036 1/15/2038 (f)	19,763,010
	5,342,865	6.60	1/01/2011	5,604,604

Freddie Mac Mortgage Participation

Certificates	1,089,434	4.50	5/01/2034	1,030,855
	19,132,658	5.00	5/01/2020 8/01/2037	18,766,680
	786,313	5.50	4/01/2037	784,690
	2,500,000	6.00	1/15/2038 (f)	2,536,720
	4,200,000	6.50	1/15/2038 (f)	4,316,811

Ginnie Mae MBS Certificates

	2,813,923	5.00	11/15/2035	2,773,608
	2,578,981	5.50	11/15/2035	2,598,617

Total Government Agency Mortgage-Backed Securities (Cost \$195,245,870)

92.7%				197,991,519
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	Face Amount	Issue	
Asset-Backed Securities** 5.8%			
\$ 2,794,967		Asset-Backed Securities Corp. Home Equity Line Trust Series 2006-HE7 Class A2, 4.915% due 11/25/2036 (a)	2,760,707
3,220,000		First Franklin Mortgage Loan Asset-Backed Certificates Series 2005-FF2 Class M2, 5.305% due 3/25/2035 (a)	2,672,600
2,240,927		GSA Home Equity Trust Series 2005-1 Class AF2, 4.316% due 11/25/2034 (a)	2,134,371
2,000,000		Securitized Asset-Backed Receivables LLC Trust (a): Series 2005-0P1 Class M2, 5.315% due 1/25/2035	1,702,220
1,025,000		Series 2005-0P2 Class M1, 5.295% due 10/25/2035	922,500
2,500,000		Soundview Home Equity Loan Trust Series 2007-OPT5 Class 2A2, 5.815% due 10/25/2037 (a)	2,296,094
Total Asset-Backed Securities (Cost \$13,262,880) 5.8%			12,488,492

Corporate Bonds 3.3%

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Diversified Financial Services 0.4%	1,000,000	Citigroup, Inc., 8.30% due 12/21/2077 (a)	1,044,191
Electric Utilities 0.9%	2,000,000	PPL Capital Funding, 6.70% due 3/30/2067 (a)	1,840,196
Insurance 2.0%	2,000,000	The Allstate Corp., 6.50% due 5/15/2057 (a)	1,861,354
	500,000	ZFS Finance (USA) (a)(b): Trust IV, 5.875% due 5/09/2032	466,065
	2,000,000	Trust V, 6.50% due 5/09/2067	1,846,376
			4,173,795
Total Corporate Bonds (Cost 3.3%	\$7,434,129		7,058,182

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Schedule of Investments (continued)

(in U.S. dollars)

	Face Amount	Issue	Value
Government Agency Mortgage-Backed Securities**			
Collateralized Mortgage Obligations 19.1%			
		Fannie Mae Trust:	
	\$ 4,482,116	Series 353 Class 2, 5% due 8/01/2034 (g)	\$ 1,118,073
	4,151,653	Series 367 Class 2, 5.50% due 1/25/2036 (g)	1,005,906
	4,674,585	Series 378 Class 5, 5% due 7/01/2036 (g)	999,424
	3,787,586	Series 2006-129 Class PA, 5.50% due 7/25/2028	3,832,506
		Ginnie Mae Trust (a):	
	30,872,180	Series 2005-47 Class SP, 0.853% due 8/20/2032 (g)	1,338,837
	10,000,000	Series 2005-87 Class C, 5.328% due 9/16/2034	10,066,274
	10,000,000	Series 2006-3 Class C, 5.235% due 4/16/2039	9,645,262
	8,781,769	Series 2006-30 Class IO, 0.80% due 5/16/2046 (g)	354,427
		Freddie Mac Multiclass Certificates:	
	4,798,750	Series 232 Class IO, 5% due 8/01/2035 (g)	1,174,641
	2,561,861	Series 2369 Class SU, 3.248% due 10/15/2031 (a)(g)	210,290
	610,263	Series 2611 Class KT, 4.037% due 4/15/2017 (a)	613,682
	6,995,600	Series 2654 Class YD, 5% due 12/15/2026 (g)	527,819
	1,116,848	Series 2659 Class IA, 5% due 12/15/2021 (g)	11,448
	5,000,000	Series 2958 Class MD, 5.50% due 1/15/2031	5,056,924
	3,689,400	Series 2996 Class SJ, 2.098% due 6/15/2035 (a)(g)	137,318
	2,680,000	Series 3042 Class EA, 4.50% due 9/15/2035	2,515,611

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1,674,840	Series 3136 Class PD, 6% due 12/15/2034	1,706,834
4,088,215	Series 3183 Class KI, 6% due 12/15/2034 (g)	363,142
Total Government Agency Mortgage-Backed Securities Collateralized Mortgage Obligations (Cost \$40,757,110) 19.1%		40,678,418

Non-Government Agency Mortgage-Backed Securities 7.7%**

Collateralized Mortgage Obligations 7.7%	965,660	Banc of America Mortgage Securities Inc. Series 2003-J Class 2A1, 4.086% due 11/25/2033 (a)	969,898
	1,715,892	CS First Boston Mortgage Securities Corp. Series 2005-11 Class 6A5, 6% due 12/25/2035	1,720,196
	475,000	Citigroup Commercial Mortgage Trust Series 2007-C6 Class A4, 5.888% due 6/10/2017 (a)	488,435
	2,744,619	Countrywide Alternative Loan Trust Series 2006-41CB Class 2A17, 6% due 1/25/2037	2,759,508
	23,845,000	First Horizon Alternative Mortgage Securities Series 2007-FA2 Class 1A11, 1.245% due 4/25/2037 (a)(g)	887,131
	1,500,000	Greenwich Capital Commercial Funding Corp. Series 2006-GG7 Class A4, 6.111% due 7/10/2038 (a)	1,567,558
		JPMorgan Chase Commercial Mortgage Securities Corp. Class A4 (a):	
	2,500,000	Series 2006-CB15, 5.814% due 6/12/2043	2,584,487
	2,000,000	Series 2006-LDP7, 6.065% due 4/15/2045	2,080,925
	1,330,000	Series 2007-CB20, 5.794% due 2/12/2051	1,370,046
	15,679,230	Residential Asset Securitization Trust Series 2004-A9 Class A3, 1.83% due 12/25/2034 (a)(g)	502,719
	1,490,725	Residential Funding Mortgage Securities I Series 2006-S1 Class 1A5, 5.25% due 1/25/2036	1,490,907
Total Non-Government Agency Mortgage-Backed Securities (Cost \$15,971,344) 7.7%		16,421,810	

Industry	Preferred Securities		
Capital Trusts 1.6%			
Consumer Finance 0.8%	2,000,000	Capital One Capital III, 7.686% due 8/15/2036	1,626,326
Diversified Financial Services 0.8%	2,000,000	JPMorgan Chase Capital XXII, 6.45% due 2/02/2037	1,780,378
Total Capital Trusts (Cost \$4,174,657) 1.6%			3,406,704

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Schedule of Investments (continued)

(in U.S. dollars)

Industry	Shares Held	Preferred Securities	Value
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Preferred Stocks	1.0%			
		40,000	Fannie Mae, 8.25%	\$ 1,030,000
		40,000	Freddie Mac Series Z, 8.375%	1,046,000
<hr/>				
Total Preferred Stocks (Cost	\$2,000,000)			
1.0%				2,076,000
<hr/>				
		Face		
		Amount		
<hr/>				
Trust Preferreds	2.2%			
Capital Markets	0.7%	\$2,000,000	Morgan Stanley Capital Trust VIII, 6.45% due 4/15/2067	1,577,600
Commercial Banks	0.7%	2,000,000	Wachovia Capital Trust IX, 6.375% due 6/01/2067	1,596,000
Media	0.8%	2,000,000	Comcast Corp., 6.625% due 5/15/2056	1,647,200
<hr/>				
Total Trust Preferreds (Cost	\$5,982,206)			
2.2%				4,820,800
<hr/>				
Total Preferred Securities (Cost	\$12,156,863)			
4.8%				10,303,504
<hr/>				
		Beneficial		
		Interest		
<hr/>				
Short-Term Securities	8.0%			
		\$17,107,254	BlackRock Liquidity Series, LLC Cash Sweep Series, 5.04% (c)(d)	17,107,254
<hr/>				
Total Short-Term Securities (Cost	\$17,107,254)			
8.0%				17,107,254
<hr/>				
		Number of	Options Purchased	
		Contracts		
<hr/>				
Options Purchased	2.2%			
Call Options Purchased		18	Receive a fixed rate of 5.495% and pay a floating rate based on 3-month LIBOR, expiring May 2012, Broker Credit Suisse First Boston International (e)	1,011,349
		18	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 (e)	1,095,752
		9	Receive a fixed rate of 5.895% and pay a floating rate based on 3-month, expiring August 2011, Broker JPMorgan Chase (e)	591,617
<hr/>				
				2,698,718
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Put Options Purchased		18	Pay a fixed rate of 5.495% and receive a floating rate based on 3-month LIBOR,	

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	expiring May 2012, Broker Credit Suisse First Boston International (e) Pay a fixed rate of 5.725% and receive a floating rate based on 3-month LIBOR,	834,714
18	expiring May 2012, Broker Lehman Brothers Special Financing (e) Pay a fixed rate of 5.895% and receive a floating rate based on 3-month LIBOR,	737,830
9	expiring August 2011, Broker JPMorgan Chase (e)	322,448
		1,894,992
Total Options Purchased (Premiums Paid \$3,573,570) 2.2%		4,593,710
Total Investments Before TBA Sale Commitments and Options Written (Cost \$312,353,739*) 146.9%		313,664,714

Issue	Face Amount	Interest Rate	Maturity Dates	
TBA Sale Commitments (13.6%) Fannie Mae Guaranteed Pass Through Certificates	\$29,700,000	5.00%	11/01/2033 10/01/2035	(28,977,904)
Total TBA Sale Commitments (Proceeds \$28,620,138) (13.6%)				(28,977,904)

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2007

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Schedule of Investments (continued)

(in U.S. dollars)

	Number of Contracts	Options Written	Value
Options Written (3.7%)			
Call Options Written			
	11	Pay a fixed rate of 5.685% and receive a floating rate based on 3-month LIBOR, expiring May 2010, Broker Lehman Brothers Special Financing (e)	\$ (1,163,174)
	50	Pay a fixed rate of 4.625% and receive a floating rate based on 3-month LIBOR, expiring March 2008, Broker Deutsche Bank AG London (e)	(1,187,550)
	11	Pay a fixed rate of 5.4475% and receive a floating rate based on 3-month LIBOR, expiring May 2010, Broker Credit Suisse First Boston International (e)	(1,027,741)
	36	Pay a fixed rate of 5.88% and receive a floating rate based on 3-month LIBOR, expiring June 2008, Broker Deutsche Bank AG London (e)	(3,396,459)
			(6,774,924)

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Put Options Written	11 Receive a fixed rate of 5.4475% and pay a floating rate based on 3-month LIBOR, expiring May 2010, Broker Credit Suisse First Boston International (e)	(675,708)
	11 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 (e)	(557,524)
		(1,233,232)
Total Options Written (Premiums Received \$3,720,246) (3.7%)		(8,008,156)
Total Investments, Net of Options Written (Cost \$280,013,355) 129.6%		276,678,654
Liabilities in Excess of Other Assets (29.6%)		(63,163,738)
Net Assets 100.0%		\$ 213,514,916

* The cost and unrealized appreciation (depreciation) of investments as of December 31, 2007, as computed for federal income tax purposes, were as follows:

Aggregate cost	\$ 312,353,739
Gross unrealized appreciation	\$ 5,395,481
Gross unrealized depreciation	(4,084,506)
Net unrealized appreciation	\$ 1,310,975

** Asset-Backed and Mortgage-Backed Securities are subject to principal paydowns. As a result of prepayments or refinancing of the underlying mortgage instruments, the average life may be substantially less than the original maturity.

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

- (a) Floating rate security.
- (b) The security may be offered and sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933.
- (c) Represents the current yield as of December 31, 2007.
- (d) 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:

Affiliate	Net Activity	Interest Income
BlackRock Liquidity Series, LLC		
Cash Sweep Series	\$6,590,167	\$216,044
BlackRock Liquidity Series, LLC		
Money Market Series		\$ 195

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(e) This European style swaption, which can be exercised only on the expiration date, represents a standby commitment whereby the writer of the option is obligated to enter into a predetermined interest rate swap contract upon exercise of the swaption.

(f) 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.

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

(h) All or a portion of security held as collateral in connection with open reverse repurchase agreement.

(i) All or a portion of security held as collateral in connection with open financial futures contracts.

Reverse repurchase agreements outstanding as of December 31, 2007 were as follows:

Counter-party	Interest Rate	Trade Date	Net Maturity Date	Closing Amount	Face Amount
Lehman Brothers, Inc	4.75%	12/13/07	1/08/08	\$ 5,565,486	\$ 5,547,188
Lehman Brothers, Inc	5.05%	12/13/07	1/08/08	\$15,203,130	\$15,150,000

Financial futures contracts purchased as of December 31, 2007 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Appreciation (Depreciation)
298	U.S. Treasury Bonds (5 Year)	March 2008	\$33,022,206	\$(158,393)
378	U.S. Treasury Bonds (10 Year)	March 2008	\$42,737,286	124,370
Total Unrealized Depreciation Net				\$ (34,023)

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Schedule of Investments (concluded) (in U.S. dollars)

Financial futures contracts sold as of December 31, 2007 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Depreciation
25	Euro Dollar Futures	March 2008	\$ 5,982,737	\$ (2,576)
107	UST Bonds (2 Year)	March 2008	\$22,475,495	(21,255)
25	Euro Dollar Futures	June 2008	\$ 5,997,424	(18,514)
25	Euro Dollar Futures	September 2008	\$ 6,003,361	(28,514)
20	Euro Dollar Futures	December 2008	\$ 4,803,439	(28,061)
20	Euro Dollar Futures	March 2009	\$ 4,799,189	(32,311)
20	Euro Dollar Futures	June 2009	\$ 4,792,689	(32,811)
20	Euro Dollar Futures	September 2009	\$ 4,786,439	(31,061)
13	Euro Dollar Futures	December 2009	\$ 3,107,935	(17,915)
13	Euro Dollar Futures	March 2010	\$ 3,104,686	(16,127)
13	Euro Dollar Futures	June 2010	\$ 3,101,273	(14,502)
13	Euro Dollar Futures	September 2010	\$ 3,098,348	(13,202)
Total Unrealized Depreciation				\$ (256,849)

Swaps outstanding as of December 31, 2007 were as follows:

	Notional Amount	Unrealized Appreciation (Depreciation)
Pay a fixed rate of 4.68528% and receive a floating rate based on 3-month USD LIBOR Broker, Deutsche Bank AG London		

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Expires September 2009	\$130,000,000	\$(1,792,391)
Receive a fixed rate of 4.032% and pay a floating rate based on 3-month USD LIBOR Broker, Credit Suisse First Boston		
Expires December 2009	\$125,000,000	405,937
Receive a fixed rate of 4.6625% and pay a floating rate based on 3-month USD LIBOR Broker, Credit Suisse First Boston		
Expires September 2010	\$201,000,000	3,882,004
	Notional	Unrealized Appreciation (Depreciation)
		Amount
<hr/>		
Pay a fixed rate of 4.795% and receive a floating rate based on 3-month USD LIBOR Broker, Deutsche Bank AG London		
Expires October 2010	\$100,000,000	\$ (2,376,039)
Pay a fixed rate of 4.805% and receive a floating rate based on 3-month USD LIBOR Broker, Lehman Brothers Inc.		
Expires October 2010	\$ 50,000,000	(1,200,898)
Receive a fixed rate of 4.48% and pay a floating rate based on 3-month USD LIBOR Broker, Credit Suisse First Boston		
Expires October 2010	\$100,000,000	1,551,344
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	\$ 50,000,000	(4,109,876)
Pay a fixed rate of 5.769% and receive a floating rate based on 3-month USD LIBOR Broker, Lehman Brothers Inc.		
Expires July 2017	\$ 25,000,000	(2,186,115)
Pay a fixed rate of 5.773% and receive a floating rate based on 3-month USD LIBOR Broker, Lehman Brothers Inc.		
Expires July 2017	\$ 25,000,000	(2,199,632)
Receive a fixed rate of 4.65% and pay a floating rate based on 3-month USD LIBOR Broker, Credit Suisse First Boston		
Expires December 2017	\$ 48,600,000	(84,183)

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Pay a fixed rate of 5.9575% and
 receive a floating rate based on
 3-month USD LIBOR
 Broker, Deutsche Bank AG London
 Expires December 2037

\$ 25,000,000

(3,647,929)

Total \$(11,757,778)

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2007

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Statement of Assets and Liabilities

As of December 31, 2007

Assets		
Investments in unaffiliated securities, at value (identified cost \$291,672,915)		\$ 291,672,915
Investments in affiliated securities, at value (identified cost \$17,107,254)		17,107,254
Unrealized appreciation on swaps		1,068,093
Options purchased, at value (premiums paid \$3,573,570)		3,573,570
Receivables:		
Securities sold	\$ 28,620,138	
Swaps	2,377,081	
Interest	2,068,093	
Variation margin	211,950	
Principal paydowns	156,112	3,000,000
Prepaid expenses and other assets		35,000,000
Total assets		350,000,000

Liabilities		
Unrealized depreciation on swaps		1,068,093
Reverse repurchase agreements		2,000,000

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TBA sale commitments, at value (proceeds	\$28,620,138)	
Options written, at value (premiums received	\$3,720,246)	
Bank overdraft		
Payables:		
Securities purchased		61,328,336
Dividends to shareholders		1,286,920
Swaps		1,169,581
Investment advisor		164,045
Interest payable		54,285
Other affiliates		2,000
		6

Accrued expenses and other liabilities

Total liabilities

Net Assets

Net assets

Capital

Common Stock, par value \$.10 per share; 200,000,000 shares authorized		\$
Paid-in capital in excess of par		22
Undistributed realized capital gains net		
Unrealized depreciation net		(13)
		\$ 21
Total capital Equivalent to \$17.42 per share based on 12,256,377 shares of capital stock outstanding (market value	\$15.84)	\$ 21

See Notes to Financial Statements.

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DECEMBER 31, 2007

Statement of Operations

For the Year Ended December 31, 2007

Investment Income

Interest (including \$216,044 from affiliates)		\$ 14,131,915
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Securities lending net		195
		<hr/>
Total income		14,132,110
		<hr/>
Expenses		
		<hr/>
Investment advisory fees	\$ 1,952,261	
Interest expense	930,455	
Short sale expense	181,688	
Accounting services	74,889	
Professional fees	62,050	
Printing and shareholder reports	40,486	
Transfer agent fees	33,163	
Custodian fees	30,936	
Repurchase offer	29,014	
Directors fees and expenses	21,580	
Pricing services	11,349	
Listing fees	9,583	
Other	31,095	
		<hr/>
Total expenses		3,408,549
		<hr/>
Investment income net		10,723,561
		<hr/>
Realized & Unrealized Gain (Loss) Net		
		<hr/>
Realized gain on:		
Investments net	(661,549)	
Financing futures contracts and swaps net	5,460,328	
Options written net	4,919,297	
TBA sale commitments net	196,281	9,914,357
		<hr/>
Change in unrealized appreciation/depreciation on:		
Investments net	2,058,857	
Financing futures contracts and swaps net	(12,875,569)	
Options written net	(4,543,620)	
TBA sale commitments net	(357,766)	(15,718,098)
		<hr/>
Total realized and unrealized loss net		(5,803,741)
		<hr/>
Net Increase in Net Assets Resulting from Operations		\$ 4,919,820
		<hr/>

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2007

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Statements of Changes in Net Assets

	Year Ended
	2007
Increase (Decrease) in Net Assets:	
Operations	
Investment income net	\$ 10,723,55
Realized gain (loss) net	9,914,35
Change in unrealized appreciation/depreciation net	(15,718,09)
Net increase in net assets resulting from operations	4,919,82
Dividends & Distributions to Shareholders	
Investment income net	(8,505,07)
Realized gain net	(10,461,36)
Tax return of capital	
Net decrease in net assets resulting from dividends and distributions to shareholders	(18,966,44)
Capital Stock Transactions	
Value of shares issued to Common Stock shareholders in reinvestment of dividends	2,604,86
Net redemption of Common Stock resulting from a repurchase offer (including \$219,324 and \$8,789 of repurchase fees, respectively)	(11,017,83)
Offering costs, including adjustments, resulting from the issuance of Common Stock	
Net increase (decrease) in net assets resulting from capital stock transactions	(8,412,97)
Net Assets	
Total decrease in net assets	(22,459,59)
Beginning of year	235,974,50
End of year	\$ 213,514,91

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See Notes to Financial Statements.

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DECEMBER 31, 2007

Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements.	For the Year Ended December 31,		For the Period October 31, 2005 to December 31, 2005
	2007	2006	2005
Per Share Operating Performance			
Net asset value, beginning of period	\$ 18.50	\$ 19.18	\$ 19.10
Investment income net**	.84	.78	.13
Realized and unrealized gain (loss) net	(.54)	(.06)	.10
Total from investment operations	.30	.72	.23
Less dividends and distributions:			
Investment income net	(.62)	(.81)	(.10)
Realized gain net	(.76)	(.03)	(.02)
Tax return of capital		(.56)	
Total dividends and distributions	(1.38)	(1.40)	(.12)
Offering costs, including adjustments, resulting from the issuance of Common Stock			(.03)
Net asset value, end of period	\$ 17.42	\$ 18.50	\$ 19.18
Market price per share, end of period	\$ 15.84	\$ 18.54	\$ 18.09
Total Investment Return***			
Based on net asset value per share	2.39%	4.08%	1.06%
Based on market price per share	(7.10%)	10.59%	(8.97%)
Ratios to Average Net Assets			

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Expenses, excluding interest expense	1.00%	1.01%	.94%*
Expenses	1.48%	1.01%	.94%*
Investment income net	4.67%	4.18%	3.89%*

Supplemental Data

Net assets, end of period (in thousands)	\$ 213,515	\$ 235,975	\$ 243,690
Portfolio turnover	254%	76%	20%

* Annualized.

** Based on average shares outstanding.

*** Total investment returns based on market price, which can be significantly greater or lesser than the net asset value, may result in substantially different returns.

Total investment returns exclude the effects of sales charges.

Commencement of operations.

Amount is less than \$(.01) per share.

Aggregate total investment return.

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2007

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Notes to Financial Statements

1. Significant Accounting Policies:

BlackRock Enhanced Government Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock shares are listed on the New York Stock Exchange ("NYSE") under the symbol EGF.

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

Valuation of Investments: The Fund values most of their 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 "Directors" or a "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, 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. Effective September 4, 2007, 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 and previously were valued at the last sales price as of the close of options trading on applicable exchanges. In the case of options traded in the OTC market, valuation is the last asked price (options written) or the last bid price (options purchased). Swap agreements are valued based upon quoted fair valuations

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received daily by the Fund from a pricing service or counterparty. Financial futures contracts are traded on exchanges and are valued at their last sale price. Repurchase agreements are valued at cost plus accrued interest. Investments in open-end investment companies are valued at their net asset value each business day. Short-term securities may be valued at amortized cost.

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, under the direction of or in accordance with 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 shall seek to determine the price that the Fund might reasonably expect to receive from the current sale of that asset in an arms-length transaction. Fair value determinations shall be based upon all available factors that the advisor and/or sub-advisor deems relevant. The pricing of all Fair Value Assets shall be subsequently reported to the Board or a committee thereof.

Generally, trading in foreign securities, as well as U.S. government securities, money market instruments and certain fixed income securities is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Foreign currency exchange rates generally will be determined as of the close of business on the NYSE. Occasionally, events affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund's net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities may be valued at their fair value as determined in good faith by the Fund's Board or by BlackRock Advisors, LLC (the Advisor), an indirect, wholly owned subsidiary of BlackRock, Inc., using a pricing service and/or procedures approved by the Fund's Board.

Derivative Financial Instruments: The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract due to an unfavorable change in the price of the underlying security or index, or if the counterparty does not perform under the contract.

OptionsThe Fund may write and purchase 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 paid or received). Written and purchased options are non-income producing investments.

SwapsThe 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. The net payments can be made for a set period of time or may be triggered by a pre-terminated credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security. 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 realized upon termination of the swap agreements. Swaps are marked-to-market daily and changes in value are recorded as unrealized appreciation

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DECEMBER 31, 2007

Notes to Financial Statements (continued)

(depreciation). Risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts terms and the possible lack of liquidity with respect to the swap agreements.

Swap options 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

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agreement at any time before the expiration of the option. Premiums received or paid from writing or purchasing options are recorded as liabilities or assets and are subsequently adjusted to the current market value of the option written or purchased. Premiums received or paid from writing or purchasing options which expire unexercised are treated by a Fund on the expiration date as realized gains or losses. The difference between the premium and the amount paid or received on effecting a closing purchase or sale transaction, including brokerage commission, is also treated as a realized gain or loss. If an option is exercised, the premium paid or received is added to the cost of the purchase or the proceeds from the sale in determining whether a Fund has realized a gain or loss on investment transactions.

The main risk that is associated with purchasing swap options is that the swap option expires without being exercised. In this case, the option expires worthless and the premium paid for the swap option is considered the loss. The main risk that is associated with the writing of a swap option is the market risk of an unfavorable change in the value of the interest rate swap underlying the written swap option. Swap options may be used by the Fund to manage the duration of the Fund's portfolio in a manner similar to more generic options described above.

Financial Futures ContractsThe Fund may purchase or sell financial futures contracts and options on such financial futures contracts. Financial 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 variation margin and are recorded 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.

The Fund may utilize futures for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund's exposure to interest rate risk.

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

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.

Effective June 29, 2007, the Fund implemented Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, including investment companies, before being measured and recognized in the financial statements. Management has evaluated the application of FIN 48 to the Fund, and has determined that the adoption of FIN 48 does not have a material impact on the Fund's financial statements. 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, 2005 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.

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. Dividend income is recorded on the ex-dividend dates. 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 exceed net investment income and accumulated realized capital gains, a portion of the total distribution may be treated as a tax return of capital.

Offering Expenses: Direct expenses relating to the public offering of the Fund's Common Stock were charged to capital at the time of issuance of the shares. Any adjustments to estimates of offering costs were recorded to capital.

Securities Lending: The Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. govern-

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2007

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Notes to Financial Statements (continued)

ment as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Funds and any additional required collateral is delivered to the Fund on the next business day. The Fund typically receives the income on the loaned securities but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. The Fund may receive a flat fee for their loans. Loans of securities are terminable at any time and the borrower, after notice, is required to return the borrowed securities within the standard time period for settlement of securities transactions.

The Fund may pay reasonable lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral falls below the market value of the borrowed securities, in the event of borrower default or in the event of losses on investments made with cash collateral.

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. The Fund receives compensation as consideration for entering into the commitment to repurchase. The Fund must maintain liquid securities having a value not less than the repurchase price (including accrued interest) for such dollar rolls. The market value of the securities that the Fund is required to purchase may decline below the agreed upon repurchase price of those securities.

Short Sales: When the Fund engages in a short sale, an amount equal to the proceeds 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 market value of the short sale. The Fund maintains a segregated account of securities as collateral for the short sales. The Fund is exposed to market risk based on the amount, if any, that the market value of the stock exceeds the market value of the securities in the segregated account. The Fund is required to repay the counterparty any dividends or interest received on the security sold short.

A gain, limited to the price at which a Fund sold the security short, or a loss, unlimited as to the dollar amount, will be recognized upon the termination of a short sale if the market price is greater or less than the proceeds originally received.

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/sold declines/increases prior to settlement date, which is in addition to the risk of decline in the value of a 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.

Bank Overdraft: The Fund recorded a bank overdraft, which resulted from management estimates of available cash.

Asset-Backed Securities: 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. Please see the Schedule of Investments for these 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.

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 Statements 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

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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.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and such differences may be material.

Other: Expenses that are directly related to the Fund are charged directly to the Fund. Other operating expenses are generally pro-rated to the Fund on the basis of relative net assets of all the BlackRock Closed-End Funds.

Recent Accounting Pronouncements: In September 2006, Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The impact on the Fund's financial statement disclosures, if any, is currently being assessed.

In addition, in February 2007, Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and

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DECEMBER 31, 2007

Notes to Financial Statements (concluded)

Financial Liabilities (FAS 159), was issued and is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FAS 157. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The impact on the Fund's financial statement disclosures, if any, is currently being assessed.

Reclassifications: Accounting principles generally accepted in the U.S. require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, \$2,247,498 has been reclassified between undistributed net investment income and undistributed net realized gains and \$29,014 has been reclassified between paid-in capital in excess of par and undistributed net investment income as a result of permanent differences attributable to accounting for swap agreements, accounting for paydowns and non-deductible expenses. These reclassifications have no effect on net assets or net asset values per share.

2. Investment Advisory Agreement and Other Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with the Advisor. Merrill Lynch & Co., Inc. (Merrill Lynch) and The PNC Financial Services Group, Inc. are the principal owners of BlackRock, Inc.

The Advisor is responsible for the management of each Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .85% of the aggregate of the Fund's average daily net assets and the proceeds of any outstanding debt securities or borrowings used for leverage. In addition, the Advisor has entered into a sub-advisory agreement with BlackRock Financial Management, Inc., an affiliate of the Advisor, under which the Advisor pays the sub-advisor for its sub-advisory services.

The Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated, a wholly owned subsidiary of Merrill Lynch, or its affiliates. Pursuant to that order, the Fund also has retained BlackRock Investment Management, LLC. (BIM), an affiliate of the Advisor, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. BIM may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by the Advisor or in registered money market funds advised by the Advisor or its affiliates.

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For the year ended December 31, 2007, BIM received \$84 in securities lending agent fees.

For the year ended December 31, 2007, the Fund reimbursed the Advisor \$4,249 for certain accounting services.

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, excluding short-term securities and dollar rolls, for the year ended December 31, 2007 were \$745,377,163 and \$710,519,747, respectively.

Transactions in options written for the year ended December 31, 2007 were as follows:

	Number of Contracts	Premiums Received
Outstanding call options written, beginning of year	128	\$ 508,030
Options written	900	8,498,523
Options expired	(690)	(4,237,625)
Options closed	(230)	(2,306,811)
Outstanding call options written, end of year	108	\$ 2,462,117

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

	Number of Contracts	Premiums Received
Outstanding put options written, beginning of year	50	\$ 30,000
Options written	1,179	5,195,092
Options expired	(520)	(924,540)
Options closed	(687)	(3,042,423)
Outstanding put options written, end of year	22	\$1,258,129

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

4. Capital Share Transactions:

The Fund is authorized to issue 200,000,000 shares of capital stock, par value \$.10 per share, all of which were initially classified as Common Stock. The Board of Directors 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 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. Shares issued and outstanding during the year ended December 31, 2006 increased by 77,011 as a result of dividend reinvestment and decreased by 23,997 as a result of a repurchase offer.

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The Fund will make offers to repurchase its shares at annual (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.

BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2007

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Notes to Financial Statements (concluded)

5. Reverse Repurchase Agreement:

For the year ended December 31, 2007, the Fund's average amount borrowed was approximately \$17,823,000 and the daily weighted average interest rate was 5.22% .

6. Distributions to Shareholders:

The tax character of distributions paid by the Fund during the year ended December 31, 2007 and December 31, 2006 was as follows:

	12/31/2007	12/31/2006
Distributions paid from:		
Ordinary income	\$ 18,966,443	\$ 10,275,940
Net long-term capital gains		395,749
Tax return of capital		7,129,386
Total distributions	\$ 18,966,443	\$ 17,801,075

As of December 31, 2007, the components of accumulated losses on a tax basis were as follows:

Undistributed ordinary income net	\$ 1,427,394
Unrealized losses net	(15,598,422)*
Total accumulated losses net	\$ (14,171,028)

* The difference between book-basis and tax-basis net unrealized losses is attributable primarily to the realization for tax purposes of unrealized gains (losses) on certain futures contracts and the deferral of post-October capital losses for tax purposes.

7. Subsequent Event:

The Fund paid a dividend in the amount of \$.105000 per share on January 9, 2008 to shareholders of record on December 31, 2007.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of BlackRock Enhanced Government Fund, Inc.:

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We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of BlackRock Enhanced Government Fund, Inc. (the Fund) as of December 31, 2007, and the related statement of operations for the year then ended, and the statement of changes in net assets and financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The financial highlights of the Fund for the period October 31, 2005 (commencement of operations) to December 31, 2005, were audited by other auditors whose report, dated February 8, 2006, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of express-

ing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of BlackRock Enhanced Government Fund, Inc. as of December 31, 2007, the results of its operations for the year then ended and the changes in its net assets. and the financial highlights for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Princeton, New Jersey

February 26, 2008
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DECEMBER 31, 2007

Automatic Dividend Reinvestment Plan

How the Plan Works The Fund offers a Dividend Reinvestment Plan (the Plan) under which income and capital gains dividends paid by the Fund are automatically reinvested in additional shares of Common Stock of the Fund. The Plan is administered on behalf of the shareholders by The Bank of New York Mellon (the Plan Agent). Under the Plan, whenever the Fund declares a dividend, participants in the Plan will receive the equivalent in shares of Common Stock of the Fund. The Plan Agent will acquire the shares for the participant's account either (i) through receipt of additional unissued but authorized shares of the Fund (newly issued shares) or (ii) by purchase of outstanding shares of Common Stock on the open market on the New York Stock Exchange or elsewhere. If, on the dividend payment date, the Fund's net asset value per share is equal to or less than the market price per share plus estimated brokerage commissions (a condition often referred to as a market premium), the Plan Agent will invest the dividend amount in newly issued shares. If the Fund's net asset value per share is greater than the market price per share (a condition often referred to as a market discount), the Plan Agent will invest the dividend amount by purchasing on the open market additional shares. If the Plan Agent is unable to invest the full dividend amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any uninvested portion in newly issued shares. The shares acquired are credited to each shareholder's account. The amount credited is determined by dividing the dollar amount of the dividend by either (i) when the shares are newly issued, the net asset value per share on the date the shares are issued or (ii) when shares are purchased in the open market, the average purchase price per share.

Participation in the Plan Participation in the Plan is automatic, that is, a shareholder is automatically enrolled in the Plan when he or she purchases shares of Common Stock of the Fund unless the shareholder specifically elects not to participate in the Plan. Shareholders who elect not to participate will receive all dividend distributions in cash. Shareholders who do not wish to participate in the Plan must advise the Plan Agent in writing (at the address set forth below) that they elect not to participate in the Plan. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by writing to the

Plan Agent.

Benefits of the Plan The Plan provides an easy, convenient way for shareholders to make additional, regular investments in the Fund. The Plan promotes a long-term strategy of investing at a lower cost. All shares acquired pursuant to the Plan receive voting rights. In addition, if the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund for less than they could otherwise purchase them and with a cash value greater than the value of any cash distribution they would have received.

However, there may not be enough shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

Plan Fees There are no enrollment fees or brokerage fees for participating in the Plan. The Plan Agent's service fees for handling the reinvestment of distributions are paid for by the Fund. However, brokerage commissions may be incurred when the Fund purchases shares on the open market and shareholders will pay a pro rata share of any such commissions.

Tax Implications The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. Therefore, income and capital gains may still be realized even though shareholders do not receive cash. Participation in the Plan generally will not affect the tax-exempt status of exempt interest dividends paid by the Fund. If, when the Fund's shares are trading at a market premium, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of the discount from the market value (which may not exce