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BlackRock Enhanced Government Fund, Inc.
Form N-CSR
February 28, 2014

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: John M. Perlowski, Chief Executive Officer, BlackRock Enhanced Government Fund, Inc., 55 East 52nd Street, New York, NY 10055

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

Date of fiscal year end: 12/31/2013

Date of reporting period: 12/31/2013

Item 1 – Report to Stockholders

DECEMBER 31, 2013

ANNUAL REPORT

BlackRock Enhanced Government Fund, Inc. (EGF)

Not FDIC Insured May Lose Value No Bank Guarantee

Section 19(a) Notice

BlackRock Enhanced Government Fund, Inc. s (EGF) (the Fund) reported amounts and sources of distributions are estimates and are not being provided for tax reporting purposes. The actual amounts and sources for tax reporting purposes will depend upon the Fund s investment experience during the year and may be subject to changes based on the tax regulations. The Fund will provide a Form 1099-DIV each calendar year that will explain the character of these dividends and distributions for federal income tax purposes.

December 31, 2013

	Total Cumulative Distributions for the Fiscal Year-to-Date			% Breakdown of the Total Cumulative Distributions for the Fiscal Year-to-Date				
	Net Investment Income	Net Realized Capital Gains	Return of Capital	Total Per Common Share	Net Investment Income	Net Realized Capital Gains	Return of Capital	Total Per Common Share
EGF	\$0.464488		\$0.295512	\$0.760000	61%	0%	39%	100%

The Fund estimates that it has distributed more than the amount of earned income and net realized gains; therefore, a portion of the distribution may be a return of capital. A return of capital may occur, for example, when some or all of the shareholder s investment in the Fund is returned to the shareholder. A return of capital does not necessarily reflect the Fund s investment performance and should not be confused with 'yield' or 'income'. When distributions exceed total return performance, the difference will incrementally reduce the Fund s net asset value per share.

Section 19(a) notices for the Fund, as applicable, are available on the BlackRock website at <http://www.blackrock.com>.

Section 19(b) Disclosure

The Fund, acting pursuant to a Securities and Exchange Commission (SEC) exemptive order and with the approval of the Fund s Board of Directors (the Board), has adopted a plan, consistent with its investment objectives and policies to support a level distribution of income, capital gains and/or return of capital (the Plan). In accordance with the Plan, the Fund currently distributes \$0.055 per share on a monthly basis.

The fixed amount distributed per share is subject to change at the discretion of the Fund s Board. Under its Plan, the Fund will distribute all available investment income to its shareholders, consistent with its primary investment objectives and as required by the Internal Revenue Code of 1986, as amended (the Code). If sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of capital to shareholders in order to maintain a level distribution. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential distribution rate increases or decreases to enable the Fund to comply with the distribution requirements imposed by the Code.

Shareholders should not draw any conclusions about the Fund s investment performance from the amount of these distributions or from the terms of the Plan. The Fund s total return performance on net asset value is presented in its financial highlights table.

The Board may amend, suspend or terminate the Fund s Plan without prior notice if it deems such actions to be in the best interests of the Fund or its shareholders. The suspension or termination of the Plan could have the effect of creating a trading discount (if the Fund s stock is trading at or above net asset value) or widening an existing trading discount. The Fund is subject to risks that could have an adverse impact on its ability to maintain a level distribution. Examples of potential risks include, but are not limited to, economic downturns impacting the markets, decreased market volatility, companies suspending or decreasing corporate dividend distributions and changes in the Code. Please refer to the Fund s prospectus for a more complete description of its risks.

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BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2013	3

Dear Shareholder

Risk assets (such as equities) powered higher in 2013, for the most part unscathed by ongoing political and economic uncertainty. While monetary policy was the main driving force behind the rally in risk assets, it was also the main culprit for the bouts of volatility during the year.

Equity markets rallied right out of the gate in January with cash pouring back in from the sidelines after a potential US fiscal crisis (i.e., the fiscal cliff) was averted with a last-minute tax deal. Key indicators signaling modest but broad-based improvements in the world's major economies and a calming in Europe's debt troubles fostered an aura of comfort for investors. Global economic momentum slowed in February, however, and the pace of the rally moderated. In the months that followed, US stocks outperformed international stocks, as the US showed greater stability than most other regions. Slow but positive growth was sufficient to support corporate earnings, while uncomfortably high unemployment reinforced expectations that the Federal Reserve would continue its aggressive monetary stimulus program. International markets experienced higher levels of volatility given a resurgence of political instability in Italy, a banking crisis in Cyprus and a generally poor outlook for European economies. Emerging markets significantly lagged the rest of the world as growth in these economies fell short of expectations.

Financial markets were rattled in May when Fed Chairman Bernanke mentioned the possibility of reducing or tapering the central bank's asset purchase programs—comments that were widely misinterpreted as signaling an end to the Fed's zero-interest-rate policy. US Treasury yields rose sharply, triggering a steep sell-off across fixed income markets. (Bond prices move in the opposite direction of yields.) Equity prices also suffered as investors feared the implications of a potential end of a program that had greatly supported the markets. Risk assets rebounded in late June, however, when the Fed's tone turned more dovish, and improving economic indicators and better corporate earnings helped extend gains through most of the summer.

The fall was a surprisingly positive period for most asset classes as the Fed defied market expectations with its decision to delay tapering. Easing of political tensions that had earlier surfaced in Egypt and Syria and the re-election of Angela Merkel as Chancellor of Germany also boosted investor sentiment. Higher volatility returned in late September when the US Treasury Department warned that the national debt would soon breach its statutory maximum. The ensuing political brinkmanship led to a partial government shutdown, roiling global financial markets through the first half of October, but the rally quickly resumed when politicians engineered a compromise to reopen the government and extend the debt ceiling, at least temporarily.

The remainder of the year was generally positive for stock markets in the developed world, although investors continued to grapple with uncertainty about when and how much the Fed would scale back on stimulus. On the one hand, persistent weak growth and low inflation provided significant latitude for monetary policy decisions and investors were encouraged by dovish comments from Fed Chair-to-be Janet Yellen. On the other hand, US housing and manufacturing reports had begun to signal fundamental improvement in the economy. The long-awaited taper announcement ultimately came in mid-December. The Fed reduced the amount of its monthly asset purchases, but at the same time, extended its time horizon for maintaining low short-term interest rates. Markets reacted positively as this move signaled the Fed's perception of real improvement in the economy and investors felt relief from the tenacious anxiety that had gripped them throughout the year.

Accommodative monetary policy and the avoidance of major risks made 2013 a strong year for most equity markets. US stocks were the strongest performers for the six- and 12-month periods ended December 31. In contrast, emerging markets were weighed down by uneven growth and structural imbalances. Rising US Treasury yields led to a rare annual loss in 2013 for Treasury bonds and other high-quality fixed income sectors including tax-exempt municipals and investment grade corporate bonds. High yield bonds, to the contrary, generated gains driven by income-oriented investors seeking yield in the low-rate environment. Short-term interest rates remained near zero, keeping yields on money market securities near historical lows.

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At BlackRock, we believe investors need to think globally and extend their scope across a broader array of asset classes and be prepared to move freely as market conditions change over time. We encourage you to talk with your financial advisor and visit www.blackrock.com for further insight about investing in today's world.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

While monetary policy was the main driving force behind the rally in risk assets, it was also the main culprit for the bouts of volatility during the year.

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of December 31, 2013

	6-month	12-month
US large cap equities (S&P 500® Index)	16.31 %	32.39 %
US small cap equities (Russell 2000® Index)	19.82	38.82
International equities (MSCI Europe, Australasia, Far East Index)	17.94	22.78
Emerging market equities (MSCI Emerging Markets Index)	7.70	(2.60)
3-month Treasury bill (BofA Merrill Lynch 3-Month US Treasury Bill Index)	0.03	0.07
US Treasury securities (BofA Merrill Lynch 10-Year US Treasury Index)	(3.10)	(7.83)
US investment grade bonds (Barclays US Aggregate Bond Index)	0.43	(2.02)
Tax-exempt municipal bonds (S&P Municipal Bond Index)	0.00	(2.55)
US high yield bonds (Barclays US Corporate High Yield 2% Issuer Capped Index)	5.94	7.44

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

Option Over-Writing

In general, the goal of the Fund is to provide shareholders with current income and gains. The Fund seeks to pursue this goal primarily by investing in a portfolio of US Government and US Agency securities and utilizing an option over-writing strategy in an effort to enhance distribution yield and total return performance. However, these objectives cannot be achieved in all market conditions.

The Fund writes call options on individual US Government and US Agency securities or on baskets of such securities or on interest rate swaps (swaptions), and may write call options on other debt securities. When writing (selling) a call option, the Fund grants the counterparty the right to buy an underlying reference security or enter into a defined transaction (e.g., a swap contract, in the case of the swaption) at an agreed-upon price (strike price) within an agreed upon time period. The Fund receives cash premiums from the counterparties upon writing (selling) the option or swaption, which along with net investment income and net realized gains, if any, are generally available to support current or future distributions paid by the Fund. During the option term, the counterparty will elect to exercise the option if the market value of the underlying reference security or underlying contract rises above the strike price, and the Fund will be obligated to sell the security or contract to the counterparty at the strike price, realizing a gain or loss. If the option remains unexercised upon its expiration, the Fund will realize gains equal to the premiums received.

Writing call options and swaptions entails certain risks, which include but are not limited to, the following: an increase in the value of the underlying security above the strike price can result in the exercise of a written option (sale by the Fund to the counterparty) when the Fund might not otherwise have sold the security; exercise of the option by the counterparty will result in a sale below the current market value and will result in a gain or loss realized by the Fund; writing call options and swaptions limits the potential appreciation on the underlying interest rate swap or security and the yield on the Fund could decline; if current market interest rates fall below the strike price, the counterparty could exercise a written swaption when the Fund might not otherwise have entered into an interest rate swap; the Fund is bound by the terms of the underlying interest rate swap agreement upon exercise of the option by the counterparty which can result in a loss to the Fund in excess of the premium received. As such, an option over-writing strategy may outperform the general fixed income market in rising or flat interest rate environments (when bond prices are steady or falling) but underperform in a falling interest rate environment (when bond prices are rising).

The Fund employs a plan to support a level distribution of income, capital gains and/or return of capital. The goal of the plan is to provide shareholders with consistent and predictable cash flows by setting distribution rates based on expected long-term returns of the Fund. Such distributions, under certain circumstances, may exceed the Fund's total return performance. When total distributions exceed total return performance for the period, the difference will reduce the Fund's total assets and net asset value per share (NAV) and, therefore, could have the effect of increasing the Fund's expense ratio and/or reducing the amount of assets the Fund has available for long-term investment. In order to make these distributions, the Fund may have to sell portfolio securities at less than opportune times.

The final tax characterization of distributions is determined after the fiscal year and is reported in the Fund's annual report to shareholders. Distributions will be characterized as ordinary income, capital gains and/or return of capital. The Fund's taxable net investment income or net realized capital gains (taxable income) may not be sufficient to support the level of distributions paid. To the extent that distributions exceed the Fund's current and accumulated earnings and profits, the excess may be treated as a non-taxable return of capital. Distributions that exceed the Fund's taxable income but do not exceed the Fund's current and accumulated earnings and profits may be classified as ordinary income, which is taxable to shareholders.

A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with 'yield or 'income. A return of capital is a return of a portion of an investor's original investment. A return of capital is not taxable, but it reduces a shareholder's tax basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent disposition by the shareholder of his or her shares. It is possible that a substantial portion of the distributions paid during a calendar year may ultimately be classified as return of capital for income tax purposes when the final determination of the source and character of the distributions is made.

The Fund intends to write call options to varying degrees depending upon market conditions. Please refer to the Schedule of Investments and the Notes to Financial Statements for details of written swaptions.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2013 5

Fund Summary as of December 31, 2013

Fund Overview

The Fund's investment objective is to provide shareholders with current income and gains. The Fund seeks to achieve its investment objective by investing primarily in a portfolio of US Government securities and US Government Agency securities, including US 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 US Government securities, US Government Agency securities or other debt securities held by the Fund in an attempt to generate gains from option premiums.

No assurance can be given that the Fund's investment objective will be achieved.

Portfolio Management Commentary

How did the Fund perform?

For the 12-month period ended December 31, 2013, the Fund returned (5.98)% based on market price and (1.06)% based on net asset value (NAV). For the same period, the BofA Merrill Lynch 1-3 Year US Treasury Index returned 0.36% and the Citigroup Government/Mortgage Index posted a return of (2.11)%. All returns reflect reinvestment of dividends. The Fund's discount to NAV, which widened during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion pertains to performance based on NAV.

What factors influenced performance?

The Fund's performance is reviewed on an absolute basis due to the unique strategy of the Fund, which entails writing call options on individual or baskets of US government securities or interest rates. The index returns listed above are for reference purposes only as these indices do not reflect an option writing strategy.

The Fund's holdings in securitized assets, specifically commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and non-agency residential mortgage-backed securities (MBS), had a positive impact on results. An allocation to corporate credit, particularly in the industrials and capital securities segments, also contributed positively to performance.

Conversely, the Fund's overall interest rate positioning and allocation to US Treasuries had a negative impact on performance.

The Fund utilized interest rate swaps as a means to manage duration, spread exposure and yield curve positioning. During the period, the use of swaps was a positive contributor to performance as spreads on 30-year swaps widened. The use of swaps continues to be an efficient interest rate management tool.

As part of its principal investment strategy, the Fund writes covered calls on interest rates to generate income while dampening the level of portfolio volatility. Covered calls contributed positively to performance for the period. The Fund took advantage of the relatively low interest rate environment by purchasing US Treasury securities and writing call options to generate incremental yield.

Describe recent portfolio activity.

The Fund tactically traded its yield curve positioning throughout the period, while maintaining a steepening bias in the short end of the curve. As discussed above, the Fund purchased Treasuries and wrote call options to generate incremental yield.

Describe portfolio positioning at period end.

The Fund's call-writing strategy has the effect of reducing overall portfolio duration, which stood at 3.14 years at the end of the period. The Fund continued to maintain a high degree of liquidity through a core exposure to government-owned and government-related debt. The largest allocations in the Fund continued to be US agency MBS

and US Treasuries. The Fund also maintained limited exposure to a diversified basket of non-government spread sectors, including CMBS, ABS, non-agency residential MBS and corporate credit.

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.

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Fund Information

Symbol on New York Stock Exchange (NYSE)	EGF
Initial Offering Date	October 31, 2005
Current Distribution Rate on Closing Market Price as of December 31, 2013 (\$13.95) ¹	4.73%
Current Monthly Distribution per Common Share ²	\$0.055
Current Annualized Distribution per Common Share ²	\$0.660
Economic Leverage as of December 31, 2013 ³	28%

¹ Current Distribution Rate on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. The current distribution rate consists of income, net realized gains and/or a return of capital. See the financial highlights for actual sources and character of distributions. Past performance does not guarantee future results.

² The distribution rate is not constant and is subject to change. A portion of the distribution may be deemed a return of capital or net realized gain.

³ Represents reverse repurchase agreements as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to reverse repurchase agreements, minus the sum of liabilities (other than borrowings representing financial leverage). For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 8.

Market Price and Net Asset Value Per Share Summary

	12/31/13	12/31/12	Change	High	Low
Market Price	\$ 13.95	\$ 15.63	(10.75)%	\$ 15.95	\$ 13.71
Net Asset Value	\$ 15.13	\$ 16.11	(6.08)%	\$ 16.11	\$ 15.10

Market Price and Net Asset Value History For the Past Five Years**Overview of the Fund's Long-Term Investments**

Portfolio Composition	12/31/13	12/31/12
US Government Sponsored Agency Securities	58%	60%
US Treasury Obligations	35	34
Preferred Securities	2	2
Asset-Backed Securities	2	2
Corporate Bonds	2	
Non-Agency Mortgage-Backed Securities	1	1
Municipal Bonds		1
Credit Quality Allocation⁴	12/31/13	12/31/12
AAA/Aaa ⁵	95%	96%
AA/Aa	1	1
A		1
BBB/Baa	3	1
BB/Ba	1	1

⁴Using the higher of Standard & Poor's or Moody's Investors Service ratings.

⁵Includes US Government Sponsored Agency Securities and US Treasury Obligations, which are deemed AAA/Aaa by the investment advisor.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2013 7

The Benefits and Risks of Leveraging

The Fund may utilize leverage to seek to enhance its yield and NAV. However, these objectives cannot be achieved in all interest rate environments.

The Fund may utilize leverage by entering into reverse repurchase agreements. In general, the concept of leveraging is based on the premise that the financing cost of assets to be obtained from leverage, which will be based on short-term interest rates, will normally 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 net income.

The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV. However, in order to benefit shareholders, the yield curve must be positively sloped; that is, short-term interest rates must be lower than long-term interest rates. If the yield curve becomes negatively sloped, meaning short-term interest rates exceed long-term interest rates, income to shareholders will be lower than if the Fund had not used leverage.

To illustrate these concepts, assume a Fund's capitalization is \$100 million and it borrows for an additional \$30 million, creating a total value of \$130 million available for investment in long-term securities. If prevailing short-term interest rates are 3% and long-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, the Fund pays interest expense on the \$30 million of borrowings based on the lower short-term interest rates. At the same time, the securities purchased by the Fund with assets received from the borrowings earn income based on long-term interest rates. In this case, the interest expense of the borrowings is significantly lower than the income earned on the Fund's long-term investments, and therefore the Fund's shareholders are the beneficiaries of the incremental net income.

If short-term interest rates rise, narrowing the differential between short-term and long-term interest rates, the incremental net income pickup will be reduced or eliminated completely. Furthermore, if prevailing short-term interest rates rise above long-term interest rates, the yield curve has a negative slope. In this case, the Fund pays higher short-term interest rates whereas the Fund's total portfolio earns income based on lower long-term interest rates.

Furthermore, the value of the Fund's portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the redemption value of the Fund's borrowings does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Fund's NAV positively or negatively in addition to the impact on Fund performance from borrowings discussed above.

The use of leverage may enhance opportunities for increased income to the Fund and shareholders, but as described above, it also creates risks as short- or long-term interest rates fluctuate. Leverage also will generally cause greater changes in the Fund's NAV, market price and dividend rate than a comparable portfolio without leverage. 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. The Fund may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause the Fund to incur losses. The use of leverage may limit the Fund's ability to invest in certain types of securities or use certain types of hedging strategies. The Fund will incur expenses in connection with the use of leverage, all of which are borne by shareholders and may reduce income.

Under the Investment Company Act of 1940, as amended (the "1940 Act"), the Fund is permitted to issue senior securities representing indebtedness up to 33¹/₃% of its total managed assets (the Fund's net assets plus the proceeds of any outstanding borrowings used for leverage). If the Fund segregates or designates on its books and records cash or liquid assets having a value not less than the repurchase price (including accrued interest), such reverse repurchase agreement will not be considered a senior security for 1940 Act purposes and therefore will not be subject to this limitation. In addition, the Fund voluntarily limits its aggregate economic leverage to 50% of its managed assets. As of December 31, 2013, the Fund had aggregate economic leverage of 28% from reverse repurchase agreements as a percentage of its total managed assets.

Derivative Financial Instruments

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The Fund may invest in various derivative financial instruments, including financial futures contracts, options, swaps and foreign currency exchange contracts, as specified in Note 4 of the Notes to Financial Statements, which may constitute forms of economic leverage. Such derivative financial instruments are used to obtain exposure to a security, index and/or market without owning or taking physical custody of securities or to hedge market, credit, equity and/or foreign currency exchange rate risk. Derivative financial instruments involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the counterparty to the transaction or illiquidity of the derivative financial instrument. The Fund's ability to use a derivative financial instrument successfully depends on the investment advisor's ability to predict pertinent market movements accurately, which cannot be assured. The use of derivative financial instruments may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio investments at inopportune times or for distressed values, may limit the amount of appreciation the Fund can realize on an investment, may result in lower dividends paid to shareholders or may cause the Fund to hold an investment that it might otherwise sell. The Fund

(1) Using the higher of S&P's, Moody's or Fitch's rating. (2) Issuer is technically in default. (3) Security is fair valued. (4) Security is not registered under the Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A under that Act, to qualified institutional buyers. As of April 30, 2003, the Trust held 13.4% of its net assets, with a current market value of \$5,575,700, in securities restricted as to resale. See Notes to Financial Statements. 19 PORTFOLIO OF INVESTMENTS (UNAUDITED) APRIL 30, 2003 ----- BlackRock Income Opportunity Trust -----

PRINCIPAL AMOUNT RATING(1) (000) DESCRIPTION VALUE

		LONG-TERM
INVESTMENTS--140.2%	MORTGAGE PASS-THROUGHS--51.8%	\$ 49,273(2) Federal Home Loan Mortgage Corp., 6.50%, 1/01/26 - 11/01/32
		\$ 51,450,965 Federal National Mortgage Assoc., 109,469(2) 5.50%, 12/01/13 - 2/01/33
		113,025,632 50,321(2) 6.00%, 12/01/09 - 11/01/32
52,599,725	1,173	7.00%, 2/01/24 - 1/01/29
		1,244,342 408 Government National Mortgage Assoc., 8.00%, 4/15/24 - 11/15/25
	446,820	----- Total Mortgage Pass-Throughs
	218,767,484	----- FEDERAL HOUSING ADMINISTRATION--4.4% GMAC Projects, 1,314 Ser. 37, 7.43%, 10/01/22
		1,419,271 631 Ser. 44, 7.43%, 8/01/22
	681,235	Merrill Projects, 1,044 Ser. 29, 7.43%, 6/01/22
	1,127,271	10,266 Ser. 42, 7.43%, 9/01/22
11,089,000	2,017	Reilly Project, Series B-11, 7.40%, 4/01/21
		2,175,867 2,051 Westmore Project 8240, 7.25%, 4/01/21
	2,203,103	----- Total Federal Housing Administration
	18,695,747	----- NON-AGENCY MULTIPLE CLASS MORTGAGE PASS-THROUGH--0.1% AAA 353 Summit Mortgage Trust, Ser. 1, Class B1, 12/28/12(3)
		356,696 ----- ADJUSTABLE RATE MORTGAGE SECURITIES--0.1% 280 Federal National Mortgage Assoc., Ser. 256, Class F, 11/25/23
		253,428 ----- INVERSE FLOATING RATE MORTGAGES--1.0% Federal Home Loan Mortgage Corp., 844 Ser. 1601, Class SE, 10/15/08
	855,276	1,000(2) Ser. 1611, Class JC, 8/15/23
	1,120,000	Federal National Mortgage Assoc., 1,808(2) Ser. 23, Class PS, 4/25/23
	1,985,320	196 Ser. 87, Class S, 8/25/21
		246,165 101 Ser. 145, Class S, 10/25/06
	4,333,602	----- Total Inverse Floating Rate Mortgages
		----- INTEREST ONLY MORTGAGE-BACKED SECURITIES--1.3% BA Mortgage Securities, Inc., 1,596 Ser. 1, Class A7, 3/25/29
	954	264 Ser. 1, Class 2X, 5/28/13
		3,915 27,030 Countrywide Home Loans, Inc., Ser. 6, Class X, 6/25/13
	59,127	Federal Home Loan Mortgage Corp., 1,192 Ser. 1223, Class H, 3/15/22
	224,958	856 Ser. 1254, Class Z, 4/15/22
	186,727	105 Ser. 1644, Class DA, 12/15/23
		362 6,975 Ser. 1809, Class SC, 12/15/23
	207,073	1,899 Ser. 1831, Class PG, 3/15/11
	235,509	1,957 Ser. 2080, Class PL, 1/15/27
		52,592 253 Ser. 2137, Class CI, 10/15/26
		3,644 Federal National Mortgage Assoc., 15 Ser. G46, Class H, 12/25/09
	241,218	307 Ser. G92-5, Class H, 1/25/22
	61,279	1,681 Ser. 7, Class PH, 4/25/11
		139,747 10,300 Ser. 16, Class IW, 11/25/12
	1,042,875	1,727 Ser. 50, Class SI, 4/25/23
	42,638	6,400 Ser. 70, Class IN, 5/25/15
		848,000 10,546 G.E. Capital Mortgage Services, Inc., Ser. 11, Class A5, 7/25/29
	148,303	17,582 GMAC Commercial Mortgage Securities Inc., Ser. C2, Class X, 5/15/35
	540,199	14,434 Goldman Sachs Mortgage Securities Corp., Ser. 5, Class IO, 6/19/27(3)
	322,513	See Notes to Financial Statements. 20 PRINCIPAL AMOUNT RATING(1) (000) DESCRIPTION VALUE
		----- INTEREST ONLY MORTGAGE-BACKED SECURITIES--(CONT'D) \$ 580 Government National Mortgage Assoc., Ser. 3, Class E, 6/16/25
	\$ 98,530	9,339 Hanover Grantor Trust, Ser. A, Class 1IO, 8/28/27(3)
		70,044 4,162 Morgan Stanley Capital 1, Inc., Ser. HF1, Class X, 7/15/29(3)
	175,809	13,285 Prudential Home Mortgage Securities Co., Ser. 5, Class A9, 2/25/24
	0	Residential Asset Securitization Trust, 14,022 Ser. A3, Class X, 5/25/29
	78,876	11,932 Ser. A5, Class A2, 9/25/30
		514,563 521 Residential Funding Mortgage Securities I Inc., Ser. S30, Class A7, 12/25/28
	4,072	18,958 Salomon Brothers Mortgage Securities VII Inc., Ser. 1, Class IO, 3/25/22
	29,622	33,031 Vendee Mortgage Trust, Ser. 1, Class IO, 2/15/27
	216,764	----- Total Interest Only Mortgage-Backed Securities

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5,559,141	-----	PRINCIPAL ONLY MORTGAGE-BACKED SECURITIES--0.8% Federal Home Loan Mortgage Corp., 426(2) Ser. 1739, Class B, 2/15/24	400,989	130 Ser. 1857, Class PB, 12/15/08	
		128,911 Federal National Mortgage Assoc., 1,154(2) Ser. 26, Class L, 3/25/23			
		1,134,189 285 Ser. 279, Class 1, 7/01/26			255,008
AAA 5,490		Fund America Investors Corp., Ser. C, Class B, 4/29/30	1,276,843		----- Total Principal Only Mortgage-Backed Securities
		3,195,940	-----	U.S. GOVERNMENT AND AGENCY SECURITIES--6.5%	14,968 Overseas Private Investment Corp., 4.30% - 7.35%, 5/29/12
		2,634,080		U.S. Treasury Notes, 1,800 3.25%, 8/15/07	
		1,849,079	2,100	4.00%, 11/15/12	
		2,126,823	4,200(2)	4.875%, 2/15/12	
4,553,392	-----	Total U.S. Government and Agency Securities	27,423,467	-----	
		CORPORATE BONDS--73.4% AEROSPACE & DEFENSE--1.6% B-	1,235 BE Aerospace, Inc., 9.50%, 11/01/08		
		815,100 BB-	1,500 L-3 Communications Corp., 7.625%, 6/15/12		
1,653,750	BBB+	1,250 Lockheed Martin Corp., 8.50%, 12/01/29	1,634,766	BBB-	1,000 Northrop Grumman Corp., 7.125%, 2/15/11
		1,169,895	BBB-	1,200 Raytheon Co., 6.15%, 11/01/08	
		1,324,648	-----	6,598,159	----- AUTOMOTIVE--2.3% B 2,000 Asbury Automotive Group, Inc., 9.00%, 6/15/12
		1,880,000	BB+	1,500 Autonation, Inc., 9.00%, 8/01/08	
		1,627,500	BB+	2,000 Briggs & Stratton Corp., 8.875%, 3/15/11	
		2,230,000	B+	3,715 Dura Operating Corp., Ser. B, 8.625%, 4/15/12	
3,826,450	-----	9,563,950	-----	BASIC MATERIAL--1.4% BB 3,000 AK Steel Corp., 7.875%, 2/15/09	
		2,662,500	A	2,000 Alcoa, Inc., 7.375%, 8/01/10	
2,353,913	B+	1,000 Oregon Steel Mills, Inc., 10.00%, 7/15/09	990,000	-----	6,006,413
		2,500 D.R. Horton, Inc., 10.50%, 4/01/05	2,737,500	-----	3,837,500
		445,000	Dow Chemical Co., A- 750 5.75%, 12/15/08		
		794,905	A-	1,400 6.00%, 10/01/12	
		1,484,000	BB	3,000 Lyondell Chemical Co., 11.125%, 7/15/12	
		3,225,000	B	1,750 Noveon, Inc., Ser. B, 11.00%, 2/28/11	
1,960,000	-----	7,908,905	-----	CONGLOMERATES--1.2% AAA 3,650 General Electric Co., 5.00%, 2/01/13	
		3,771,256	A	1,300 Honeywell, Inc., 6.125%, 11/01/11	
1,447,169	-----	5,218,425	-----	See Notes to Financial Statements. 21 PRINCIPAL AMOUNT RATING(1) (000)	
		DESCRIPTION VALUE			
		CONSUMER PRODUCTS--8.8% B \$ 1,875 American Seafoods Group LLC, 10.125%, 4/15/10			\$
2,015,625	A	2,000 Avery Dennison Corp., 4.875%, 1/15/13	2,037,480	B	2,000 Buffets, Inc., 11.25%, 7/15/10
		1,950,000	General Mills, Inc., BBB+ 550 5.125%, 2/15/07		
		588,145	BBB+	1,700 6.00%, 2/15/12	
1,874,771	Kellogg Co., Ser. B, BBB 700 6.00%, 4/01/06		764,908	BBB	2,000 6.60%, 4/01/11
		2,276,690	A-	3,000 Kohls Corp., 6.30%, 3/01/11	
		3,374,647	A3	2,000 Kraft Foods, Inc., 5.625%, 11/01/11	
2,095,171	BBB-	1,000 Kroger Co., 5.50%, 2/01/13	1,025,931	BB-	2,000 Levi Strauss & Co., 12.25%, 12/15/123
		1,680,000	AA-	3,000 Procter & Gamble Co., 6.875%, 9/15/09	
		3,561,734	B	2,000 Roundys, Inc., Ser. B, 8.875%, 6/15/12	
2,050,000	BBB	2,495 Safeway, Inc., 6.50%, 3/01/11	2,742,903	A+	2,000 Unilever Capital Corp., 7.125%, 11/01/10
		2,376,297	AA	3,000 Wal-Mart Stores, Inc., 6.875%, 8/10/09	
		3,529,022	BB+	3,000 Yum! Brands, Inc., 8.875%, 4/15/11	
3,487,500	-----	37,430,824	-----	CONTAINERS & GLASS--1.8% B+ 1,500 Crown European Holdings SA, 9.50%, 3/01/11 (France)3	
		1,597,500	BB	2,250 Owens-Brockway Glass Container, Inc., 8.875%, 2/15/09	
		2,413,125	Plastipak Holdings, Inc., B+ 1,590 10.75%, 9/01/11		
		1,717,200	B+	685 10.75%, 9/01/113	
739,800	B	1,240 Stone Container Corp., 9.25%, 2/01/08	1,370,200	-----	7,837,825
		3,202,500	B	2,250 Casella Waste Systems, Inc., 9.75%, 2/01/133	
2,430,000	-----	5,632,500	-----	ELECTRONICS--0.5% B-	1,750 Chippac Int. Ltd., Ser. B, 12.75%, 8/01/09
		1,960,000	-----	ENERGY--7.8% BBB 2,000 Amerada Hess Corp., 6.65%, 8/15/11	
		2,237,768	BBB+	600 Anadarko Petroleum Corp., 5.375%, 3/01/07	
547,500	BB-	2,500 Chesapeake Energy Corp., 9.00%, 8/15/12	2,787,500	A-	3,000 Conoco Funding Co., 6.35%, 10/15/11
		3,399,647	BBB+	2,000 Dominion Resources, Inc., 5.70%, 9/17/12	
		2,125,668	B	2,500 Dresser, Inc., 9.375%, 4/15/11	
2,600,000	BBB	1,500 DTE Energy Co., 7.05%, 6/01/11	1,728,503	B	400 El Paso Corp., 7.875%, 6/15/123
		351,000	BBB+	3,000 Exelon Corp., 6.75%, 5/01/11	
		3,407,777	Baa2	1,500 FirstEnergy Corp., Ser. C, 7.375%, 11/15/31	

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.....	1,642,286	BBB+	1,250	Kinder Morgan Energy Partners LP, 7.30%, 8/15/33		
.....	1,478,125	BBB	1,000	Kinder Morgan, Inc., 6.50%, 9/01/12	1,110,149	
BB- 2,500	Leviathan Gas Pipeline Partners LP, Ser. B, 10.375%, 6/01/09	2,706,250	BBB	1,800	Occidental Petroleum Corp., 6.75%, 1/15/12	2,056,077
.....	1,973,010	BBB	2,000	Progress Energy, Inc., BBB 1,800 6.75%, 3/01/06		
.....	2,289,215	-----	33,085,729	-----	FINANCE & BANKING--18.0% Aa3 2,450	
Bank of America Corp., 7.80%, 2/15/10	2,949,709	Aa3	1,400(2)	Bank One Corp., 6.50%, 2/01/06		
.....	1,552,991	Aa3	2,000	Barclays Bank PLC, 6.86%, 6/15/32 (United Kingdom)3		
.....	2,211,520	A	500	Bear Stearns Co., Inc., 6.50%, 5/01/06	555,239	
6,000	Citigroup, Inc., 5.625%, 8/27/12	6,472,398		Credit Suisse First Boston USA, Inc., Aa3		
700(2)	6.125%, 11/15/11	757,705	Aa3	1,000	7.125%, 7/15/32	
.....	1,164,829			See Notes to Financial Statements. 22	PRINCIPAL AMOUNT RATING(1)	
(000) DESCRIPTION VALUE -----						
FINANCE & BANKING--(CONT'D) Federal Home Loan Mortgage Corp., AAA \$ 4,000(2) 4.875%, 3/15/07						
.....	\$ 4,333,720	AAA	4,000(2)	6.875%, 9/15/10		
.....	4,795,200	AAA	8,000(2)	Federal National Mortgage Assoc., 4.375%, 10/15/06 -		
9/15/12	8,319,720	A3	3,000(2)	Ford Motor Credit Co., 6.875%, 2/01/06		
3,113,936	AAA	3,000	General Electric Capital Corp., Ser. A, 6.75%, 3/15/32	3,472,642	General Motors	
Acceptance Corp., A2 700	6.75%, 1/15/06	732,984	A2	4,000	6.875%, 8/28/12	
.....	4,072,138	AA-	1,000	Goldman Sachs Group, Inc., 6.60%, 1/15/12		
.....	1,130,030	A	3,650	Household Finance Corp., 6.375%, 10/15/11 - 11/27/12		
4,030,270	A-	2,000	John Deere Capital Corp., 5.10%, 1/15/13	2,052,672	JP Morgan Chase & Co.,	
A+	2,100	5.25%, 5/30/07		2,266,176	A	
.....	1,136,478	AAA	3,000	KFW Intl. Finance, Inc., 5.25%, 6/28/06		
.....	3,288,636	Ba1	1,000	Labranche & Co., Inc., 12.00%, 3/02/07		
1,095,000	Lehman Brothers Holdings, Inc., A+ 850	6.25%, 5/15/06		931,330	A+	
1,500	6.625%, 1/18/12	1,707,022	A	2,000	MetLife, Inc., 5.375%, 12/15/12	
.....	2,102,303	Morgan Stanley, Aa3	600	5.80%, 4/01/07		
.....	658,781	AA-	1,600	6.75%, 4/15/11		
1,817,575	AA	2,000	Northern Trust Co., 6.30%, 3/07/11	2,256,534	BBB+	
Acceptance Corp., 6.75%, 8/15/11	2,043,857	AA-	2,000	UBS Preferred Funding Trust I, 8.622%,		
10/29/49	2,524,200	Aa2	2,000	Wells Fargo Bank, 7.55%, 6/21/10		
2,415,320	-----	75,960,915	-----	FOREST PRODUCTS--1.8% Ba2	2,000	
.....	2,060,000	BB+	2,500	Tembec Industries, Inc., 8.50%, 2/01/11 (Canada)		
2,587,500	Weyerhaeuser Co., BBB	1,550	5.95%, 11/01/08	1,679,586	BBB	
6.75%, 3/15/12	1,121,274	-----	7,448,360	-----	HEALTH CARE--1.4% AA	
1,000	Bristol Myers Squibb Co., 5.75%, 10/01/11	1,086,540	B-	1,200	Concentra Operating Corp.,	
Ser. B, 13.00%, 8/15/09	1,332,000	Caa2	3,000	HealthSouth Corp., 7.00%, 6/15/084		
.....	1,935,000	BB+	1,500	Omnicare, Inc., Ser. B, 8.125%, 3/15/11		
1,627,500	-----	5,981,040	-----	HOTELS & CASINO--4.8% B+	2,100	
.....	2,310,000	B+	2,000	Boyd Gaming Corp., 8.75%, 4/15/12		
2,140,000	B	2,000	Extended Stay America, Inc., 9.875%, 6/15/11	2,055,000	B	
Q. Hotels LP, Ser. B, 8.875%, 5/15/12	1,759,500	B	1,500	Herbst Gaming, Inc., Ser. B, 10.75%, 9/01/08		
.....	1,646,250	Ba3	1,500	HMH Properties, Inc., Ser. B, 7.875%, 8/01/08		
1,485,000	BB+	1,000	MGM Mirage, Inc., 9.75%, 6/01/07	1,120,000	BB-	
Gaming Authority, 8.75%, 1/01/09	2,337,500	BB+	2,000	Park Place Entertainment Corp., 8.875%,		
9/15/08	2,160,000	BBB-	3,000	Starwood Hotels & Resorts, 7.875%, 5/01/12		
.....	3,157,500	-----	20,170,750	-----	INDUSTRIAL EQUIPMENT--1.0% B+	
Inc., 10.50%, 8/01/12	2,130,600	BB-	2,000	United Rentals NA, Inc., 10.75%, 4/15/08(3)		
.....	2,150,000	-----	4,280,600	-----	LEISURE--0.4% B	
.....	1,543,125	-----	MEDIA--5.0% B1	2,000	Alliance Atlantis Communications, Inc., 13.00%,	
12/15/09 (Canada)	2,280,000	AOL Time Warner, Inc., BBB+	2,000	7.70%, 5/01/32		
.....	2,224,467	BBB+	3,000	9.125%, 1/15/13		
.....	3,669,000			See Notes to Financial Statements. 23	PRINCIPAL AMOUNT RATING(1)	
(000) DESCRIPTION VALUE -----						
MEDIA--(CONT'D) CCC- \$ 3,000 Charter Communications Holdings LLC, 10.75%, 10/01/09						
.....	\$ 1,995,000					
Comcast Cable Communications, Inc., BBB	1,000	6.75%, 1/30/11		1,071,563	BBB	
1,800	8.875%, 5/01/17	2,288,359	BB-	3,000	EchoStar DBS Corp., 10.375%,	
10/01/07	3,360,000	B	1,000	Quebecor Media, Inc., 11.125%, 7/15/11 (Canada)		
.....	1,130,000	B-	3,000	WRC Media Corp., 12.75%, 11/15/09		
3,075,000	-----	21,093,389	-----	REAL ESTATE--0.5% BBB+	1,000	
.....	1,112,109	BBB+	800	EOP Operating LP, 7.00%, 7/15/11		

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MORTGAGE PASS-THROUGHS--0.9% AAA 2,822 Bank One, Ser. 1, Class 2A, 3/15/15	
2,878,668 AAA 561 Prudential Home Mortgage Securities Co., Ser. 35, Class A12, 6.75%, 9/25/08	559,474 AAA 1,158
Summit Mortgage Trust, Ser. 1, Class B1, 12/28/12(3)	1,070,087 ----- Total Non-Agency Multiple
Class Mortgage Pass-Throughs	4,508,229 ----- ADJUSTABLE RATE MORTGAGE
SECURITIES--0.2% Federal National Mortgage Assoc., 430 Ser. 38, Class F, 8.325%, 4/25/21	
403,991 631 Ser. 256, Class F, 2.844%, 11/25/23	570,213 ----- Total Adjustable Rate
Mortgage Securities	974,204 ----- See Notes to Financial Statements. 26 PRINCIPAL
AMOUNT RATING(1) (000) DESCRIPTION VALUE	
	----- INVERSE FLOATING RATE
MORTGAGES--10.0% AAA \$ 6,460 Countrywide Mortgage-Backed Securities, Inc., Ser. D, Class A15, 1/25/09	\$
6,552,896 Federal Home Loan Mortgage Corp., 157 Ser. 1160, Class F, 10/15/21	198,967
294 Ser. 1580, Class SD, 9/15/08	297,857 915 Ser. 1601, Class SE, 10/15/08
.....	927,510 517 Ser. 1608, Class SC, 11/15/23
1,457(2) Ser. 1616, Class SB, 11/15/08	520,674
.....	4,614,302 10,536 Ser. 2575, Class QS, 9/15/31
10,671,077 Federal National Mortgage Assoc., 102 Ser. 19, Class SB, 1/25/24	102,341 436
Ser. 38, Class SA, 4/25/21	458,805 3,109 Ser. 79, Class SE, 1/25/22
.....	3,184,279 428 Ser. 87, Class S, 8/25/21
1,920 Ser. 93, Class S, 5/25/08	537,870
.....	2,035,472 204 Ser. 129, Class SE, 8/25/08
.....	214,046 206 Ser. 145, Class S, 10/25/06
1,651 Ser. 170, Class SC, 9/25/08	258,158
.....	1,695,385 4,327 Ser. 196, Class SC, 10/25/08
.....	4,575,732 2,173 Ser. 214, Class S, 12/25/08
2,278,190 1,358 Ser. 214, Class SH, 12/25/08	1,507,259 2,562 Ser. 247, Class SN,
12/25/23	2,851,265 AAA 1,911 Kidder Peabody Acceptance Corp., Ser. 1, Class A6, 8/25/23
.....	1,927,602 AAA 649 Residential Funding Mortgage Securities Inc., Ser. S36, Class A13, 10/25/08
681,383 ----- Total Inverse Floating Rate Mortgages	47,635,654 ----- INTEREST ONLY
MORTGAGE-BACKED SECURITIES--10.0% American Housing Trust, 489 Ser. III, Class 4, 3/25/19	
.....	9,999 115 Ser. VII, Class 2, 11/25/20
Mortgage Securities, Inc., 405 Ser. 1, Class X, 7/25/26	340,000 BA
5/28/13	2,150 300 Ser. 1, Class 2X,
12/15/30	4,457 104,801 Commercial Mortgage Acceptance Corp., Ser. ML1, Class IO,
6/20/29(3) . 2,140,039 Federal Home Loan Mortgage Corp., 1,387 Ser. G-13, Class PP, 5/25/21	
.....	50,778 41,587 Ser. G-60, Class HS, 4/25/24
2,339,260 11,543 Ser. 204, Class IO, 5/01/29	1,460,651 22 Ser. 1494, Class PL, 3/15/22
.....	37,301 2,384 Ser. 1706, Class IA, 10/15/23
622 Ser. 1720, Class PK, 1/15/24	254,786
.....	88,587 18,484 Ser. 1809, Class SC, 12/15/23
.....	548,743 20,310 Ser. 1914, Class PC, 12/15/11
22,106 Ser. 2002, Class HJ, 10/15/08	258,751
.....	951,772 763 Ser. 2037, Class IB, 12/15/26
.....	21,660 3,042 Ser. 2050, Class PI, 12/15/11
1,708 Ser. 2063, Class PI, 4/15/12	132,043
.....	52,292 5,434 Ser. 2080, Class PL, 1/15/27
.....	146,046 27 Ser. 2099, Class JB, 9/15/22
2,029 Ser. 2138, Class PI, 3/15/11	359,527
.....	36,885 8,630 Ser. 2289, Class S, 2/15/31
.....	1,159,665 457 Ser. 2296, Class IO, 8/15/27
6,762 Ser. 2296, Class SA, 3/15/16	594
.....	458,578 7,359 Ser. 2358, Class IB, 7/15/21
.....	55,191 6,240 Ser. 2444, Class ST, 9/15/29
9,078 Ser. 2512, Class QS, 10/15/22	438,732
.....	453,911 5,101 Ser. 2513, Class BI, 12/15/15
.....	404,883 4,545 Ser. 2542, Class MX, 5/15/22
5,028 Ser. 2543, Class IM, 9/15/12	721,182
.....	535,200 11,648 Ser. 2545, Class NI, 3/15/22
.....	1,565,167 See Notes to Financial Statements. 27 PRINCIPAL AMOUNT RATING(1) (000)
DESCRIPTION VALUE	-----
INTEREST ONLY MORTGAGE-BACKED SECURITIES--(CONT'D) Federal National Mortgage Assoc., \$ 3 Ser. G-50, Class G,	
12/25/21	\$ 49,796 790 Ser. G92-5, Class H, 1/25/22
157,575 2 Ser. G92-12, Class C, 2/25/22	41,409 2,679 Ser. G92-60, Class SB, 10/25/22
.....	61,061 3,050 Ser. W4, Class IO, 12/25/28
12,851 Ser. 2, Class ID, 3/25/23	304,968
.....	16,063 28,816 Ser. 16, Class PI, 11/25/12
.....	2,845,549 2,898 Ser. 19, Class PI, 8/25/12
48,277 Ser. 23, Class ES, 10/25/22	48,903
.....	5,124,842 11,048 Ser. 33, Class SG, 3/25/09
.....	975,359 13,508 Ser. 37, Class SE, 10/25/22
171,147 3,454 Ser. 50, Class SI, 4/25/23	
.....	85,275 3,955 Ser. 62, Class IC, 7/25/15
.....	475,781 5,597 Ser. 62, Class IL, 3/25/24
12,371 Ser. 68, Class SC, 1/25/24	574,563
.....	1,136,575 7,989 Ser. 82, Class IR, 9/25/12
.....	923,679 49,725 Ser. 90, Class M, 1/25/28

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8,246,945	8,070	Ser. 199, Class SB, 10/25/23	791,874	6,157	Ser. 301, Class 2, 4/01/29
			758,048	11,935	Ser. 302, Class 2, 6/01/29
1,564,555	249	First Boston Mortgage Securities Corp., Ser. C, Class IO, 4/25/17	46,701	37,916	GMAC Commercial Mortgage Securities, Inc., Ser. C1, Class X, 7/15/29
			2,400,132	28,694	Government National Mortgage Assoc., Ser. 7, Class PS, 1/20/28
133,344	305	Kidder Peabody Acceptance Corp., Ser. B, Class A2, 4/22/18	81,944	7,874	Merrill Lynch Mortgage Investors, Inc., Ser. C2, Class IO, 6/15/21
			182,089	13,005	Morgan Stanley Capital 1, Inc., Ser. HF1, Class X, 7/15/293
			549,361	24,675	Prudential Home Mortgage Securities Co., Ser. 5, Class A9, 2/25/24
			0	65	Prudential Securities Inc., Ser. 15, Class 1G, 5/20/21
			26,302	4,500	Residential Accredited Loans, Inc., Ser. QS7, Class A1, 4/25/33
			736,875	30,340	Small Business Administration, Ser. 1, Class IO, 4/01/15
			360,289	285,951	Vendee Mortgage Trust, Ser. 2, Class 1IO, 5/15/29
357,439		Total Interest Only Mortgage-Backed Securities	47,569,453		PRINCIPAL ONLY MORTGAGE-BACKED SECURITIES--13.3% AAA
					342 Chase Mortgage Finance Corp., Ser. A, Class AP, 1/25/10
			284,121	235	Collateralized Mortgage Obligation Trust, Ser. 29, Class A, 5/23/17
214,693		Countrywide Home Loan Mortgage Certificates, AAA 1,585 Ser. J2, Class A30, 4/25/33			
			1,394,800	1,322	Ser. 11, Class A14, 5/25/33
1,209,756	AAA	4,199 Ser. 11, Class A28, 5/25/33	3,842,303		Drexel Burnham Lambert, Inc., AAA 90 Ser. K, Class 1, 9/23/17
			81,411	1,005	Ser. V, Class 1, 9/01/18
			934,973	1,061	Ser. T-8, Class A10, 11/15/28
			817,273	634	Ser. 1418, Class M, 11/15/22
3,077	Ser. 1571, Class G, 8/15/23		2,480,152	7,271	Ser. 1691, Class B, 3/15/24
			6,606,564	955	Ser. 1739, Class B, 2/15/24
288	Ser. 1750, Class PC, 3/15/24		286,716	532	Ser. 1857, Class PB, 12/15/08
			526,874	1,506	Ser. 1896, Class PA, 11/15/23
1,483,420	Federal National Mortgage Assoc., 1,428 Ser. G93-2, Class KB, 1/25/23				1,298,233
1,468	Ser. W4, Class PO, 2/25/29		1,212,529	120	Ser. 5, Class PV, 11/25/23
			119,839	166	Ser. 7, Class J, 2/25/21
6,137	Ser. 13, Class PR, 3/25/32		5,705,686	3,148	Ser. 26, Class L, 3/25/23
			3,092,713	2,589	Ser. 82, Class PO, 12/25/32
2,466,072	1,609 Ser. 273, Class 1, 7/01/26		1,509,594	734	Ser. 279, Class 1, 7/01/26
			657,623	24,949	Ser. 328, Class 1, 11/01/32
22,110,564	See Notes to Financial Statements. 28 PRINCIPAL AMOUNT RATING(1) (000) DESCRIPTION VALUE				PRINCIPAL ONLY
					MORTGAGE-BACKED SECURITIES--(CONT'D) AAA \$ 467 First Union Residential Securitization Trust, Ser. A, Class 1-APO, 3/25/15
			\$ 430,516	AAA	11,786 Fund America Investors Corp., Ser. C, Class B, 4/29/30
2,741,364	AAA 150 Housing Security Inc., Ser. D, Class D8, 6/25/23		139,750	AAA	110 Structured Mortgage Asset Residential Trust, Ser. 3C, Class CX, 4/25/24
			99,670		Total Principal Only Mortgage-Backed Securities
			63,322,056		COMMERCIAL MORTGAGE-BACKED SECURITIES--2.4% AAA
10,250	New York City Mortgage Loan Trust, Ser. 1996, Class A2, 6.75%, 6/25/11(3)		11,667,135		U.S. GOVERNMENT AND AGENCY SECURITIES--24.4% 13,607 Overseas Private Investment Corp., 4.30% - 7.35%, 5/29/12
			14,781,903		Small Business Administration, 1,763 Ser. 20C-1, 7.15%, 3/01/17
			1,974,757	2,843	Ser. 20E-1, 7.60%, 5/01/16
3,226,310	3,518 Ser. 20F-1, 7.55%, 6/01/16		3,967,576	2,223	Ser. 20G-1, 7.70%, 7/01/16
			2,518,714	2,884	Ser. 20H-1, 7.25%, 8/01/16
3,231,871	4,480 Ser. 20K-1, 6.95%, 11/01/16		4,987,438	2,105	Small Business Investment Companies, Ser. P10A-1, 6.12%, 2/01/08
			2,227,169		U.S. Treasury Bonds, 155,700(2) Zero Coupon, 11/15/24
			50,674,901	8,325(2)	8.00%, 11/15/21
11,678,085	U.S. Treasury Notes, 3,000(2) 3.875%, 2/15/13		3,003,984	14,000(2)	4.00%, 11/15/12
			14,178,822		Total U.S. Government and Agency Securities
			116,451,530		COLLATERALIZED MORTGAGE OBLIGATION
RESIDUALS--0.1% 45 FBC Mortgage Securities Trust 16, CMO, Ser. A1, 7/01/17(4)			399,200		Total Long-Term Investments (cost \$578,980,223)
			581,865,355		SHORT-TERM INVESTMENT--2.6% DISCOUNT NOTE--2.6% 12,700 Federal Home Loan Bank, 1.25%, 5/01/03 (cost \$12,700,000)
			12,700,000		Total investments before investment sold short and outstanding option written (cost \$591,680,223)
			594,565,355		INVESTMENT SOLD SHORT--(3.5)% 15,750 U.S. Treasury Notes, 4.375%, 8/15/12 (proceeds \$16,213,984)
			(16,444,606)		NOTIONAL AMOUNT (000) OUTSTANDING OPTION WRITTEN--(0.2)% CALL OPTION--(0.2)% \$11,000 Interest Rate Swap, 5.50%, over 3 month LIBOR, expires 5/06/03 (premium received \$207,753) (1,187,046)
					Total investments, net of investment sold short and outstanding option written--120.8% 576,933,703 Other liabilities in excess of other assets--(20.8)%
(99,475,468)					NET ASSETS--100% \$477,458,235

(1) Using the higher of S&P's, Moody's or Fitch's rating. (2) Entire or partial principal amount pledged as collateral for reverse

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repurchase agreements or financial futures contracts. (3) Security is not registered under the Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A under that Act, to qualified institutional buyers. As of April 30, 2003, the Trust held 3.4% of its net assets, with a current market value of \$16,201,097, in securities restricted as to resale. (4) Illiquid security representing 0.1% of net assets. See Notes to Financial Statements. 29 PORTFOLIO OF INVESTMENTS (UNAUDITED) APRIL 30, 2003 ----- BlackRock Strategic Bond Trust ----- PRINCIPAL AMOUNT RATING(1) (000) DESCRIPTION VALUE

		LONG-TERM
INVESTMENTS--144.0%	CORPORATE BONDS--142.0%	AEROSPACE & DEFENSE--4.4% B- \$ 2,000(2) BE Aerospace, Inc., 9.50%, 11/01/08
		\$ 1,320,000 BBB 1,000 Lockheed Martin Corp., 8.20%, 12/01/09
		1,225,369 BBB- 650(2) Raytheon Co., 6.55%, 3/15/10
719,036 A+ 1,000(2) United Technologies Corp., 6.35%, 3/01/11		1,130,995 ----- 4,395,400
----- AUTOMOTIVE--15.8% BB+ 2,000(2) Autonaton, Inc., 9.00%, 8/01/08		2,170,000 B1
2,000(2) Collins & Aikman Products Co., 10.75%, 12/31/11		2,090,000 A3 1,000(2) Daimler Chrysler NA
Holding Corp., 7.30%, 1/15/12		1,141,141 BB 2,000 Dana Corp., 10.125%, 3/15/10
-----		2,220,000 B3 2,000(2) Delco Remy Intl., Inc., 11.00%, 5/01/09
-----		1,060,000 B 2,000 Dura Operating Corp., Ser. D, 9.00%, 5/01/09
1,840,000 B+ 2,000(2) Sonic Automotive, Inc., Ser. D, 11.00%, 8/01/08		2,130,000 B+ 1,000 TRW
Automotive, Inc., 9.375%, 2/15/13(3)		1,090,000 B 2,000 United Auto Group Inc., 9.625%, 3/15/12
-----		2,095,000 ----- 15,836,141 ----- BASIC MATERIAL--2.1% BB- 2,000(2) Century
Aluminum Co., 11.75%, 4/15/08		2,055,000 ----- BUILDING & DEVELOPMENT--5.3% BB
1,000(2) Beazer Homes USA, Inc., 8.625%, 5/15/11		1,080,000 B- 2,000 Great Lakes Dredge &
Dock Corp., 11.25%, 8/15/08		2,120,000 Ba1 2,000 Schuler Homes, Inc., 9.375%, 7/15/09
-----		2,095,000 ----- 5,295,000 ----- CHEMICAL--5.4% BB 2,000 Lyondell Chemical Co.,
Ser. B, 9.875%, 5/01/07		2,050,000 B 1,796 Noveon, Inc., Ser. B, 11.00%, 2/28/11
-----		2,011,520 B- 1,250 Resolution Performance Products, Inc., 13.50%, 11/15/10
-----		1,337,500 ----- 5,399,020 ----- CONGLOMERATES--4.5% A 325 Honeywell Intl., Inc., 7.50%,
3/01/10		389,409 B 1,500 MDP Acquisitions PLC, 9.625%, 10/01/12 (Ireland)(3)
-----		1,620,000 B 2,000 Penhall Intl., Inc., 12.00%, 8/01/06
1,132(2) Tyco Intl. Group SA, 6.375%, 2/15/06 (Luxembourg)		1,126,340 ----- 4,535,749 -----
CONSUMER PRODUCTS--7.8% B- 2,000 Friendly Ice Cream Corp., 10.50%, 12/01/07		2,010,000
BBB+ 1,000(2) General Mills, Inc., 5.125%, 2/15/07		1,069,354 BBB 575(2) Kellogg Co., Ser. B,
6.00%, 4/01/06		628,318 BB- 2,000 Levi Strauss & Co., 12.25%, 12/15/12(3)
-----		1,680,000 B- 500 Pantry, Inc., The, 10.25%, 10/15/07
B+ 2,000 Sbarro, Inc., 11.00%, 9/15/09		1,940,000 ----- 7,825,172 -----
CONTAINERS & GLASS--3.0% B 1,000 Crown European Holdings SA, 10.875%, 3/01/13 (France)(3)		1,050,000 B+ 1,800 Plastipak Holdings, Inc., 10.75%, 9/01/11
-----		1,944,000 ----- 2,994,000
----- ECOLOGICAL SERVICES & EQUIPMENT--3.8% B+ 2,000(2) Allied Waste NA, Inc., Ser. B, 10.00%, 8/01/09		-----
-----		2,135,000 B 1,500 Casella Waste Systems, Inc., 9.75%, 2/01/13(3)
1,620,000 ----- 3,755,000 ----- ELECTRONICS--4.4% B+ 2,000 FIMEP SA, 10.50%, 2/15/13 (France)(3)		-----
-----		2,190,000 Ba2 2,000(2) Flextronics Intl. Ltd., 9.875%, 7/01/10 (Singapore)
-----		2,220,000 ----- 4,410,000 ----- See Notes to Financial Statements. 30 PRINCIPAL AMOUNT
RATING(1) (000) DESCRIPTION VALUE		
		ENERGY--18.9% BBB+ \$
1,000(2) Anadarko Petroleum Corp., 5.375%, 3/01/07		\$ 1,075,424 B+ 2,000(2) Calpine Corp.,
10.50%, 5/15/06		1,690,000 BB 2,000(2) Compagnie Generale De Geophysique SA,
10.625%, 11/15/07 (France)		2,000,000 A- 1,000(2) Conoco, Inc., 6.95%, 4/15/29
-----		1,163,751 B 2,000(2) Dresser, Inc., 9.375%, 4/15/11
2,080,000 BBB 250(2) DTE Energy Co., 7.05%, 6/01/11		288,084 El Paso Corp., B 165
7.75%, 1/15/32		127,050 B 85 7.80%, 8/01/31
-----		65,450 BB- 1,000 GulfTerra Energy Partners L.P., Ser. B, 8.50%, 6/01/11
-----		1,070,000 BBB+ 250(2) Exelon Corp., 6.75%, 5/01/11
Baa2 325(2) FirstEnergy Corp., Ser. C, 7.375%, 11/15/31		355,829 B+ 2,000 Hanover Equipment
Trust, Ser. A, 8.50%, 9/01/08		2,040,000 BB- 1,000 Leviathan Gas Pipeline Partners LP, Ser. B,
10.375%, 6/01/09		1,082,500 BBB 250 Occidental Petroleum Corp., 6.75%, 1/15/12
-----		285,566 BBB 1,000(2) Progress Energy, Inc., 6.75%, 3/01/06
1,096,117 B 2,000 Swift Energy Co., 10.25%, 8/01/09		2,100,000 BB- 2,000 Western Gas
Resources, Inc., 10.00%, 6/15/09		2,180,000 ----- 18,983,752 ----- FINANCE &
BANKING--16.9% A+ 500(2) Allstate Corp., 7.875%, 5/01/05		557,728 Aa3 1,000(2) Bank
One Corp., 6.50%, 2/01/06		1,109,280 Aa3 650(2) Barclays Bank PLC, 8.55%, 9/29/49
(United Kingdom)3		809,900 A 325(2) Bear Stearns Co., Inc., 6.50%, 5/01/06
-----		360,906 B+ 2,000(2) Bluewater Finance Ltd., 10.25%, 2/15/12 (United Kingdom)
-----		2,007,000 AA+ 3,000(2) Citigroup, Inc., 5.75%, 5/10/06
		3,276,540 Ford

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Motor Credit Co., A3 750(2) 5.80%, 1/12/09	709,781 A3 2,000(2) 6.875%, 2/01/06
..... 2,075,957 General Motors Acceptance Corp., A2 250(2) 6.75%, 1/15/06	
..... 261,780 A2 900(2) 6.875%, 9/15/11	
909,703 A2 300(2) 8.00%, 11/01/31	307,484 AAA 850(2) KFW Intl. Finance, Inc.,
5.25%, 6/28/06	931,780 Ba1 1,000 Labranche & Co., Inc., 12.00%, 3/02/07
..... 1,095,000 A+ 1,000(2) Lehman Brothers Holdings, Inc., 6.25%, 5/15/06	
..... 1,095,682 A 325(2) MetLife, Inc., 6.125%, 12/01/11	362,426
BBB+ 1,000 Sears Roebuck Acceptance Corp., 6.75%, 8/15/11	1,021,929 ----- 16,892,876
----- FOREST PRODUCTS--3.1% Ba2 2,000(2) Caraustar Industries, Inc., 9.875%, 4/01/11	
2,060,000 BBB 1,000(2) Weyerhaeuser Co., 6.125%, 3/15/07	1,090,593 ----- 3,150,593
----- HEALTH CARE--6.7% D 2,000 HealthSouth Corp., 6.875%, 6/15/05	1,300,000 B-
2,000 Insight Health Services Corp., Ser. B, 9.875%, 11/01/11	1,860,000 B+ 2,000 Matria Healthcare, Inc.,
Ser. B, 11.00%, 5/01/08	1,960,000 B- 1,500 United Surgical Partners Intl., Inc., 10.00%, 12/15/11
..... 1,590,000 ----- 6,710,000 -----	HOTELS & CASINO--2.9% BB+ 2,000 Park Place Entertainment
Corp., 7.875%, 3/15/10	2,065,000 B 1,000 Resorts Intl. Hotel & Casino, Inc., 11.50%, 3/15/09
..... 870,000 ----- 2,935,000 -----	INDUSTRIAL EQUIPMENT--4.0% BB- 2,000 Mail Well I
Corporation, 9.625%, 3/15/12	2,060,000 B+ 2,000(2) United Rentals, Inc., Ser. B, 9.25%, 1/15/09
..... 1,910,000 ----- 3,970,000 -----	See Notes to Financial Statements. 31 PRINCIPAL
AMOUNT RATING(1) (000) DESCRIPTION VALUE	
----- LEISURE--1.5% BB+ \$ 1,500	
Royal Caribbean Cruises Ltd., 8.75%, 2/02/11 (Liberia)	\$ 1,522,500 ----- MEDIA--13.4% NR 2,000(2)
Adelphia Communications Corporation, Ser. B, 10.50%, 7/15/04(4)	990,000 B1 1,500(2) Alliance Atlantis
Communications, Inc., 13.00%, 12/15/09 (Canada)	1,710,000 BBB+ 1,000(2) AOL Time Warner, Inc., 7.70%,
5/01/32	1,112,233 CCC- 2,000 Charter Communications Holdings LLC, 11.125%, 1/15/11
..... 1,330,000 BBB 1,000 Comcast Cable Communications, Inc., 6.875%, 6/15/09	
1,105,000 BB- 2,000 EchoStar DBS Corp., 10.375%, 10/01/07	2,240,000 B- 2,000 Nextmedia
Operating, Inc., 10.75%, 7/01/11	2,215,000 A- 1,000(2) Viacom, Inc., 6.625%, 5/15/11
..... 1,145,111 B- 1,500 WRC Media Corp., 12.75%, 11/15/09	
..... 1,537,500 ----- 13,384,844 -----	REAL ESTATE--2.5% A- 500(2) ERP Operating LP,
6.95%, 3/02/11	557,298 Felcore Lodging LP, Ba3 1,000 8.50%, 6/01/11
..... 967,500 Ba3 1,000 9.50%, 9/15/08	
997,500 ----- 2,522,298 -----	TECHNOLOGY--2.1% BB+ 2,000 Unisys Corp., 8.125%, 6/01/06
..... 2,145,000 -----	TELECOMMUNICATION--8.2% BBB+ 900(2) AT&T Corp., 6.50%,
11/15/06	964,676 B3 1,000 Crown Castle Int'l. Corp., 10.75%, 8/01/11
..... 1,035,000 Ba3 2,000 PanAmSat Corp., 8.50%, 2/01/12	
2,160,000 CCC+ 450 Qwest Capital Funding, Inc., 5.875%, 8/03/04	418,500 Aa3 2,000(2) Verizon
New England, Inc., 6.50%, 9/15/11	2,261,075 A 1,000(2) Vodafone Group PLC, 7.75%, 2/15/10
(United Kingdom)	1,210,540 Worldcom, Inc., NR 400 7.375%, 1/15/06(3,4)
..... 112,000 NR 200 8.00%, 5/15/06(4)	56,000
----- 8,217,791 -----	TRANSPORTATION--5.3% BBB+ 500 Canadian National Railway Co., 6.90%, 7/15/28 (Canada)
..... 576,850 Baa1 400 Norfolk Southern Corp., 7.05%, 5/01/37	461,269 B
2,000 Pacer Intl., Inc., Ser. B, 11.75%, 6/01/07	2,120,000 B 2,000 RailAmerica Transp. Corp.,
12.875%, 8/15/10	2,180,000 ----- 5,338,119 -----
..... 142,273,255 -----	Total Corporate Bonds
Mexican States, 8.125%, 12/30/19 (Mexico)	1,130,000 -----
European Investment Bank, 4.875%, 9/06/06	919,861 -----
(COST \$143,798,660)	144,323,116 LIABILITIES IN EXCESS OF OTHER ASSETS--(44.0)%
..... (44,098,269) -----	NET ASSETS--100%
\$100,224,847 -----	(1) Using the higher of S&P's, Moody's or Fitch's rating. (2) Entire or partial principal amount
pledged as collateral for reverse repurchase agreements or financial futures contracts. (3) Security is not registered under the	Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A under that Act, to qualified
institutional buyers. As of April 30, 2003, the Trust held 10.0% of its net assets, with a current market value of \$10,071,100, in	securities restricted as to resale. (4) Issuer is technically in default. See Notes to Financial Statements. 32 STATEMENTS OF
ASSETS AND LIABILITIES (UNAUDITED) APRIL 30, 2003	Broad
Investment Grade 2009 Core Assets Term Trust(1) Bond Trust	Investments at value(2)
..... \$ 67,486,179 \$ 604,469,491 Cash	75,072 267,764
Receivable from investments sold	142,795 33,363,149 Variation margin receivable
..... 39,188 499,366 Collateral deposited with brokers	-- -- Receivable for closed
forward foreign currency contracts, net	-- 102,514 Interest receivable
Unrealized appreciation on interest rate swaps	-- -- Other assets
..... 68,579,742 648,279,213	Liabilities Reverse repurchase agreements
..... 18,166,250 52,728,594 Payable to custodian	-- -- Payable for investments

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purchased -- 181,314,682 Loan payable -- -- Investments sold short at value(3) -- -- Outstanding options written at value(4) -- -- Interest payable 4,348 100 Interest rate floors at value -- -- Payable for open forward foreign currency contracts -- 232,302 Unrealized depreciation on interest rate swaps and purchase commitment -- -- Variation margin payable -- -- Investment advisory fee payable 22,668 216,107 Administration fee payable 6,182 -- Deferred Directors/Trustees fees 9,500 13,524 Other accrued expenses 173,221 75,789 18,382,169 234,581,098 ----- Net Assets \$ 50,197,573 \$ 413,698,115 =====

===== Composition of Net Assets: Par value \$ 29,571 \$ 27,019 Paid-in capital in excess of par 40,240,039 386,206,969 Cost of shares held in treasury(5) -- -- Undistributed (distributions in excess of) net investment income ... 7,769,200 (3,746,782) Accumulated net realized gain (loss) 1,208,563 13,661,944 Net unrealized appreciation (depreciation) 950,200 17,073,033 Accumulated net realized and unrealized foreign currency loss -- 475,932 ----- Net assets, April 30, 2003 \$ 50,197,573 \$ 413,698,115 =====

===== Net asset value per common share(6) \$16.98 \$15.31 ===== (1)Consolidated Statement of Assets and Liabilities (2)Investments at cost \$ 66,489,325 \$ 586,812,069 (3)Proceeds received -- -- (4)Premium received -- -- (5)Shares held in treasury -- -- (6)Common shares issued and outstanding 2,957,093 27,018,774 See Notes to Financial Statements. 33

INCOME HIGH OPPORTUNITY INCOME STRATEGIC YIELD

TRUST TRUST TRUST BOND TRUST \$ 58,801,618 \$599,994,605 \$594,565,355 \$144,323,116 -- 103,912 349,511 58,472 -- 2,974,659 1,278,602 --- 1,445,063 --- -- 1,180,000 16,464,688 -- -- -- -- 2,420,967 7,652,624 5,454,311 3,834,357 -- 1,146,903 -- -- 51,781 76,914 85,796 2,933 ----- 61,274,366 614,574,680 618,198,263 148,218,878 ----- 187,816,125 110,819,750 47,747,000 130,057 -- -- 2,946,894 -- -- 19,250,000 -- -- -- 16,444,606 -- -- 323,740 1,187,046 -- 28,690 536,147 1,523,155 -- -- -- 1,626,107 -- -- -- 11,220 8,474,732 -- -- 38 103,380 -- 51,575 204,004 253,933 65,021 4,912 34,001 78,133 -- 14,185 69,232 84,681 2,933 71,363 104,960 144,505 179,077 ----- 19,550,782 192,046,361 140,740,028 47,994,031 ----- \$ 41,723,584 \$422,528,319 \$477,458,235 \$100,224,847 ----- \$ 6,367 \$ 344,497 \$ 632,471 \$ 7,026 93,758,505 406,532,068 563,097,029 100,127,403 -- (17,377,850) -- -- (70,114) 5,340,133 8,842,687 1,377,247 (32,427,076) 9,827,500 (86,680,931) (1,811,285) (19,544,098) 18,057,969 (8,433,021) 524,456 -- (195,998) -- ----- \$ 41,723,584 \$422,528,319 \$477,458,235 \$100,224,847 ----- \$6.55 \$12.27 \$7.55 \$14.27 ===== \$ 78,345,716 \$580,342,044 \$591,680,223 \$143,798,660 -- -- 16,810,234 -- -- 56,660 207,753 -- -- 1,757,400 -- -- 6,367,294 34,449,693 63,247,058 7,025,735 34

STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE SIX MONTHS ENDED APRIL 30, 2003

BROAD INVESTMENT GRADE 2009 CORE INVESTMENT INCOME

TERM TRUST(1) BOND TRUST Interest income \$ 2,267,041 \$ 14,561,365 ----- EXPENSES Investment advisory 138,035 1,519,509 Administration 37,646 -- Transfer agent 5,380 8,305 Custodian 33,703 71,335 Reports to shareholders 28,287 47,965 Directors/Trustees fees 7,109 23,542 Registration 1,175 15,620 Independent accountants 24,697 21,502 Interest expense 131,598 180,954 Excise tax 219,172 -- Legal 9,663 13,885 Miscellaneous 11,751 54,133 ----- Total expenses 648,216 1,956,750 Less fees waived by Advisor -- -- Less fees paid indirectly -- (4,390) ----- Net expenses 648,216 1,952,360 ----- Net investment income 1,618,825 12,609,005 ----- REALIZED AND UNREALIZED GAIN (LOSS) Net realized gain (loss) on: Investments (127,696) 8,567,737 Foreign currency -- -- 573,241 Futures 322,209 5,078,583 Interest rate caps -- -- Interest rate swaps -- -- Options written -- -- Short sales -- -- 194,513 14,219,561 ----- Net change in unrealized appreciation/depreciation on: Investments (1,409,314) 15,838,819 Foreign currency -- (49,074) Futures (119,548) (81,596) Interest rate caps -- -- Interest rate floors -- -- Interest rate swaps -- -- Options written -- -- 134,580 Short sales (1,528,862) 15,842,729 ----- Net gain (loss) on investments (1,334,349) 30,062,290 ----- NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS \$ 284,476 \$ 42,671,295 ===== (1) Consolidated Statement of Operations. See Notes to Financial Statements. 35

INCOME HIGH OPPORTUNITY INCOME STRATEGIC YIELD TRUST TRUST TRUST BOND TRUST \$ 4,262,804 \$ 16,474,347 \$ 21,284,662 \$ 6,268,135 ----- 308,225 1,218,930 1,560,470 515,550 29,355 203,155 480,145 -- 10,909 17,035 43,141 7,831 15,762 102,040 86,904 25,055 29,753 67,383 61,985 14,828 5,950 26,633 32,351 6,229 11,157 15,620 24,049 11,157 17,209 54,465 54,103 20,426 186,714 849,627 857,092 366,074 -- -- -- 12,397 44,902 21,660 6,089 10,916 76,704 87,481 13,577 ----- 638,347 2,676,494 3,309,381 986,816 -- -- -- (137,480) (1,382) (2,863) (6,094) (6,112) ----- 636,965 2,673,631 3,303,287 843,224 ----- 3,625,839 13,800,716 17,981,375 5,424,911 ----- (2,083,995) (1,268,598) 920,149 (1,494,577) --

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(195,998) --- 10,871,248 (65,475) --- (1,317) --- 5,570 (882,431) --- 64,050 234,850 --- (27,844) (162,481) -----
 ----- (2,083,995) 9,448,428 43,295 (1,494,577) ----- 4,784,614
 16,220,556 (8,646,770) 12,621,690 -- 168,091 --- (2,262,090) (1,162,947) --- 354,083 --- 381,599 --- (969,381)
 (439,203) -- (157,822) (578,680) -- 599,240 (230,622) -- ----- 4,784,614 13,598,594
 (10,322,540) 12,621,690 ----- 2,700,619 23,047,022 (10,279,245) 11,127,113 -----
 ----- \$ 6,326,458 \$ 36,847,738 \$ 7,702,130 \$ 16,552,024 =====

===== 36 STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTHS ENDED APRIL 30, 2003
 ----- RECONCILIATION OF NET INCREASE (DECREASE) BROAD
 INVESTMENT IN NET ASSETS RESULTING FROM OPERATIONS TO GRADE 2009 CORE NET CASH FLOWS PROVIDED BY
 (USED FOR) TERM TRUST(1) BOND TRUST OPERATING ACTIVITIES ----- Net increase in net assets
 resulting from operations \$ 284,476 \$ 42,671,295 ----- Decrease (increase) in investments
 5,505,802 (5,899,816) Net realized loss (gain) (194,513) (14,219,561) Decrease
 (increase) in unrealized appreciation/depreciation 1,528,862 (15,842,729) Decrease in interest rate caps
 -- -- Increase in interest rate floors -- -- Decrease in interest rate swaps and
 purchase commitments -- -- Decrease (increase) in receivable for investments sold (142,795) (2,055,612)
 Increase in receivable for forward foreign currency contracts -- (102,514) Decrease (increase) in variation margin receivable
 (15,626) (89,091) Decrease (increase) in collateral deposited with brokers -- -- Decrease (increase) in interest
 receivable 39,201 (1,672,899) Decrease (increase) in other assets (1,384) (8,094) Decrease
 in payable for investments purchased -- (3,196,129) Increase (decrease) in payable for forward foreign currency
 contracts -- 103,042 Decrease in variation margin payable -- -- Increase (decrease) in interest payable
 (12,975) (48) Increase (decrease) in outstanding options written -- (334,219) Increase (decrease) in
 investments sold short -- -- Increase (decrease) in investment advisory fee payable (1,361) (4,694)
 Decrease in administration fee payable (371) -- Increase in deferred Directors/Trustees fees
 1,823 4,428 Increase (decrease) in other accrued expenses (158,318) (35,753) ----- Total
 adjustments 6,548,345 (43,353,689) ----- Net cash flows provided by (used for)
 operating activities \$ 6,832,821 \$ (682,394) ===== INCREASE (DECREASE) IN CASH AND
 FOREIGN CURRENCY Net cash flows provided by (used for) operating activities \$ 6,832,821 \$ (682,394) -----
 ----- Cash flows provided by (used for) financing activities: Increase (decrease) in reverse repurchase agreements
 (5,502,937) 17,326,094 Cash dividends paid (1,330,536) (16,211,242) ----- Net cash
 flows provided by (used for) financing activities (6,833,473) 1,114,852 ----- Effect of changes in exchange rate
 -- -- ----- Net increase (decrease) in cash (652) 432,458 Cash at
 beginning of period 75,724 (164,694) ----- Cash at end of period
 \$ 75,072 \$ 267,764 ===== (1) Consolidated Statement of Cash
 Flows. See Notes to Financial Statements. 37 ----- INCOME HIGH

OPPORTUNITY INCOME STRATEGIC YIELD TRUST TRUST TRUST BOND TRUST ----- \$
 6,326,458 \$ 36,847,738 \$ 7,702,130 \$ 16,552,024 ----- 175,007 (18,213,420) 83,353,851
 (3,797,110) 2,083,995 (9,448,428) (43,295) 1,494,577 (4,784,614) (13,598,594) 10,322,540 (12,621,690) --- 20 --- (560,474)
 -- 980,601 449,403 -- 98,916,946 18,402,695 -- (756,221) 296,214 --- (1,180,000) 769,687 -- (108,956) (1,857,398)
 1,368,150 (149,088) 488 16,537 (5,500) (476) -- (98,621,183) (1,460,612) -- -- 38 103,380 -- (11,874) 256,256 (763,696)
 (35,552) -- 90,022 330,080 -- (73,551,740) 16,444,606 -- (2,379) (2,181) (25,901) 1,787 (226) (363) (7,476) -- 1,593 8,037
 11,006 1,182 8,101 (190,923) (103,353) 17,978 ----- (2,638,865) (117,152,014) 128,881,325
 (15,088,392) ----- \$ 3,687,593 \$(80,304,276) \$136,583,455 \$ 1,463,632 =====
 ===== \$ 3,687,593 \$(80,304,276) \$136,583,455 \$ 1,463,632 -----
 ----- -- 102,112,338 (94,972,514) 3,523,625 (3,555,578) (21,799,162) (41,629,035) (4,921,483) -----
 ----- (3,555,578) 80,313,176 (136,601,549) 1,397,858 ----- -- 3,681 --- -----
 ----- 132,015 12,581 (18,094) 65,774 (262,072) 91,331 367,605 (7,302) -----
 ----- \$ (130,057) \$ 103,912 \$ 349,511 \$ 58,472 ===== 38

STATEMENTS OF CHANGES IN NET ASSETS FOR THE SIX MONTHS ENDED APRIL 30, 2003 (UNAUDITED) AND FOR THE
 PERIOD(1) ENDED OCTOBER 31, 2002 ----- BROAD INVESTMENT
 GRADE 2009 TERM TRUST(2) CORE BOND TRUST ----- 2003 2002 2003 2002
 ----- INCREASE (DECREASE) IN NET ASSETS OPERATIONS: Net investment income
 \$ 1,618,825 \$ 5,953,008 \$ 12,609,005 \$ 26,838,280 Net realized gain (loss) 194,513 2,180,535
 14,219,561 78,567 Net change in unrealized appreciation/depreciation (1,528,862) (2,064,590) 15,842,729 1,070,052 -----
 ----- Net increase in net assets resulting from operations 284,476 6,068,953
 42,671,295 27,986,899 ----- DIVIDENDS AND DISTRIBUTIONS: From net investment income
 (1,330,536) (2,291,473) (16,211,242) (26,838,280) From net realized gains -- -- -- Tax return of
 capital distributions -- -- -- In excess of net investment income (179,545) -----
 ----- Total dividends and distributions (1,330,536) (2,291,473) (16,211,242) (27,017,825) -----
 ----- CAPITAL SHARE TRANSACTIONS: Net proceeds from the issuance of common shares .. -- -- 357,484,731
 Net proceeds from the underwriters' overallotment option exercised -- -- 28,650,000 Trust shares issued in
 conjunction with reinvestment of dividends -- -- 134,257 Cost of Trust shares reacquired -- -- --
 ----- Net proceeds from capital share transactions ... -- -- 386,268,988 -----

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----- Total increase (decrease)		(1,046,060)	3,777,480	26,460,053	387,238,062	-----
----- NET ASSETS Beginning of period		51,243,633	47,466,153	387,238,062	-----	-----
----- End of period		\$ 50,197,573	\$ 51,243,633	\$ 413,698,115	\$ 387,238,062	-----
===== End of period undistributed (distributions in excess of) net investment income						
	\$ 7,769,200	\$ 7,480,911	\$ (3,746,782)	\$ (144,545)	-----	(1) Commencement of investment operations for Core Bond was November 30, 2001. This information includes the initial investment by BlackRock Funding, Inc. The other Trusts' statements are for a full year. (2) Consolidated Statement of Changes in Net Assets. See Notes to Financial Statements. 39 HIGH YIELD TRUST INCOME OPPORTUNITY TRUST INCOME TRUST -----
----- 2003 2002 2003 2002 2003 2002 -----						
	\$ 3,625,839	\$ 7,613,863	\$ 13,800,716	\$ 39,603,548	\$ 17,981,375	\$ 62,183,766 (2,083,995) (8,468,860)
9,448,428	(6,747,774)	43,295	28,398,002	4,784,614	2,224,397	13,598,594 5,135,503 (10,322,540) (50,286,165) -----
	6,326,458	1,369,400	36,847,738	37,991,277	7,702,130	40,295,603 -----
	(3,625,839)	(7,613,863)	(13,434,708)	(25,885,698)	(44,475,823)	(35,876,922) -- --
(8,364,454)	-- --	(584,069)	-- --	(70,114)	-- --	(3,695,953)
(8,197,932)	(21,799,162)	(25,885,698)	(44,475,823)	(35,876,922)	-----	-----
	-- --	140,375	261,647	-- --	2,846,788	202,011 -- -- (2,381,796) -- --
	140,375	261,647	-- (2,381,796)	2,846,788	202,011	----- 2,770,880
(6,566,885)	15,048,576	9,723,783	(33,926,905)	4,620,692	-----	38,952,704
45,519,589	407,479,743	397,755,960	511,385,140	506,764,448	-----	\$
41,723,584	\$ 38,952,704	\$422,528,319	\$407,479,743	\$477,458,235	\$511,385,140	=====
===== \$ (70,114) \$ -- \$ 5,340,133 \$ 4,974,125 \$ 8,842,687 \$						
35,337,135 40 STATEMENTS OF CHANGES IN NET ASSETS FOR THE SIX MONTHS ENDED APRIL 30, 2003 (UNAUDITED) AND FOR THE PERIOD(1) ENDED OCTOBER 31, 2002 -----						
STRATEGIC BOND TRUST ----- 2003 2002 ----- INCREASE (DECREASE) IN NET ASSETS						
OPERATIONS: Net investment income						
	\$ 5,424,911	\$ 6,886,556	Net realized loss			
(1,494,577)	(316,708)	Net change in unrealized appreciation/depreciation .	12,621,690	(12,097,234)	-----	Net
increase (decrease) in net assets resulting from operations						
	16,552,024	(5,527,386)	-----			
DIVIDENDS FROM NET INVESTMENT INCOME						
	(5,053,253)	(5,890,967)	-----			CAPITAL SHARE
TRANSACTIONS: Net proceeds from the issuance of common shares -- 99,920,015 Trust shares issued in conjunction with reinvestment of dividends						
	131,770	92,644	-----			Net proceeds from capital share
transac-	131,770	100,012,659	-----			Net increase
	11,630,541	88,594,306	-----			
----- NET ASSETS Beginning of period						
	\$ 100,224,847	\$ 88,594,306	=====			End of period
investment income \$ 1,377,247 \$ 1,005,589 ----- (1) Commencement of investment operations for Strategic Bond was February 28, 2002. This information includes the initial investment by BlackRock Funding, Inc. See Notes to Financial Statements. 41 CONSOLIDATED FINANCIAL HIGHLIGHTS ----- BlackRock Broad Investment Grade 2009 Term Trust ----- SIX MONTHS ENDED YEAR ENDED OCTOBER 31, APRIL 30, 2003 ----- (UNAUDITED) 2002 2001 2000 1999 1998 -----						
----- PER SHARE OPERATING PERFORMANCE: Net asset value, beginning of period(1) . \$ 17.33 \$ 16.05 \$ 13.64 \$ 13.64 \$ 15.01 \$ 14.48 -----						
Investment operations: Net investment income						
0.55	2.01	1.17	0.91	0.93	1.20	Net realized and unrealized gain (loss) (0.45) 0.04 2.01 (0.09) (1.45) 0.23 -----
----- Net increase (decrease) from investment operations						
	0.10	2.05	3.18	0.82	(0.52)	1.43 -----
----- Dividends from net investment income (0.45) (0.77) (0.77) (0.82) (0.85) (0.90) -----						
----- Net asset value, end of period(1)						
	\$ 16.98	\$ 17.33	\$ 16.05	\$ 13.64	\$ 13.64	\$ 15.01 =====
===== Market value, end of period(1)						
	\$ 16.40	\$ 16.18	\$ 14.39	\$ 11.94	\$ 11.44	\$ 13.25
===== TOTAL INVESTMENT RETURN(2)						
27.66%	12.11%	(7.68)%	17.15%	-----	-----	----- RATIOS TO AVERAGE NET
ASSETS: Total expenses						
2.58%	(3)	2.50%	3.52%	4.36%	3.49%	3.51%
Net expenses						
2.58%	(3)	2.50%	3.52%	4.36%	3.49%	3.51%
Net expenses excluding interest expense and excise tax						
1.19%	(3)	1.16%	1.16%	-----	-----	-----
1.31%	1.03%	1.01%	-----	-----	-----	-----
Net investment income						
6.45%	(3)	12.22%	7.93%	6.83%	6.58%	8.13%
SUPPLEMENTAL DATA:						
Average net assets (000)						
\$ 50,611	\$ 48,731	\$ 43,701	\$ 39,425	\$ 41,909	\$ 43,482	Portfolio turnover
12%	35%	19%	36%	25%	25%	-----
Net assets, end of period (000)						
\$ 50,198	\$ 51,244	\$ 47,466	\$ 40,321	\$ 40,345	\$ 44,395	Reverse
repurchase agreements outstanding, end of period (000)						
\$ 18,166	\$ 23,669	\$ 13,373	\$ 18,850	\$ 16,304	\$ 19,770	Asset
coverage(4)						
\$ 3,763	\$ 3,165	\$ 4,550	\$ 3,139	\$ 3,475	\$ 3,246	-----
(1) Net asset value and market value are published in BARRON'S on Saturday and THE WALL STREET JOURNAL on Monday. (2) Total investment return is calculated assuming a purchase of a share at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results. (3) Annualized. (4) Per \$1,000 of reverse repurchase agreements outstanding. The information above represents the unaudited operating performance for a share outstanding, total investment returns, ratios to average net assets and other supplemental data for each period indicated. This information has been determined based upon financial information provided in the financial						

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statements and market value data for the Trust's shares. See Notes to Financial Statements. 42 FINANCIAL HIGHLIGHTS
 ----- BlackRock Core Bond Trust ----- SIX MONTHS FOR THE PERIOD ENDED NOVEMBER 30,
 2001(1) APRIL 30, 2003 THROUGH (UNAUDITED) OCTOBER 31, 2002 ----- PER SHARE OPERATING
 PERFORMANCE: Net asset value, beginning of period(2) \$ 14.33 \$ 14.33 ----- Investment operations: Net
 investment income 0.47 0.99 Net realized and unrealized gain 1.11 0.04 -----
 Net increase from investment operations 1.58 1.03 ----- Dividends and distributions from net investment
 income (0.60) (1.00) ----- Capital charges with respect to issuance of shares (0.60) (0.03) ----- Net
 asset value, end of period(2) \$ 15.31 \$ 14.33 ===== Market value, end of period(2)
 \$ 14.88 \$ 13.82 ===== TOTAL INVESTMENT RETURN(3) 12.23%
 (1.02)% ===== RATIOS TO AVERAGE NET ASSETS:(4) Total expenses 0.99%
 1.04% Net expenses 0.99% 1.04% Net expenses excluding interest expense 0.90%
 0.93% Net investment income 6.40% 7.67% SUPPLEMENTAL DATA: Average net assets (000)
 \$ 397,596 \$ 380,277 Portfolio turnover 208% 419% Net assets, end of period
 (000) \$ 413,698 \$ 387,238 Reverse repurchase agreements outstanding, end of period (000) \$ 52,729 \$
 165,215 Asset coverage(5) \$ 8,846 \$ 3,342 ----- (1) Commencement of investment operations. This
 information includes the initial investments by BlackRock Funding, Inc. Net asset value immediately after the closing of the public
 offering was \$14.30. (2) Net asset value and market value are published in BARRON'S on Saturday and THE WALL STREET
 JOURNAL on Monday. (3) Total investment return is calculated assuming a purchase of a share at the current market price on the
 first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are
 assumed for purposes of this calculation to be reinvested at prices obtained under the Trust's dividend reinvestment plan. Total
 investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past
 performance is not a guarantee of future results. (4) Annualized. (5) Per \$1,000 of reverse repurchase agreements outstanding.
 The information above represents the unaudited operating performance for a share outstanding, total investment returns, ratios to
 average net assets and other supplemental data for each period indicated. This information has been determined based upon
 financial information provided in the financial statements and market value data for the Trust's shares. See Notes to Financial
 Statements. 43 FINANCIAL HIGHLIGHTS ----- FOR THE PERIOD
 DECEMBER 23, 1998(1) SIX MONTHS ENDED YEAR ENDED OCTOBER 31, THROUGH APRIL 30, 2003
 ----- OCTOBER 31, (UNAUDITED) 2002 2001 2000 1999 -----
 PER SHARE OPERATING PERFORMANCE: Net asset value, beginning of period(2) \$ 6.13 \$ 7.20 \$ 10.60 \$ 13.58 \$ 15.00
 ----- Investment operations: Net investment income 0.57 1.20 1.32 1.66 1.29 Net
 realized and unrealized gain (loss) 0.43 (0.98) (3.13) (3.02) (1.52) ----- Net increase (decrease)
 from investment operations 1.00 0.22 (1.81) (1.36) (0.23) ----- Dividends and distributions: From net
 investment income (0.58) (1.20) (1.48) (1.62) (1.17) Tax return of capital -- (0.09) (0.11) --
 ----- Total dividends and distributions (0.58) (1.29) (1.59) (1.62) (1.17) -----
 ----- Capital charge with respect to issuance of shares -- -- -- (0.02) ----- Net asset value, end of
 period(2) \$ 6.55 \$ 6.13 \$ 7.20 \$ 10.60 \$ 13.58 ===== Market value, end
 of period(2) \$ 10.29 \$ 8.68 \$ 9.18 \$ 11.88 \$ 12.50 ===== TOTAL
 INVESTMENT RETURN(3) 26.28% 7.97% (11.31)% 8.23% (9.68)% =====
 ===== RATIOS TO AVERAGE NET ASSETS: Total expenses 3.22%(4) 3.47% 4.90% 5.29% 4.16%(4)
 Net expenses 3.22%(4) 3.47% 4.90% 5.29% 4.08%(4) Net expenses excluding interest expense
 2.27%(4) 2.20% 2.03% 1.99% 1.98%(4) Net investment income 18.32%(4) 16.29% 14.23% 13.12% 10.34%(4)
 SUPPLEMENTAL DATA: Average net assets (000) \$ 39,917 \$ 46,751 \$ 58,553 \$ 79,602 \$ 92,116 Portfolio
 turnover 22% 147% 71% 92% 121% Net assets, end of period (000) \$ 41,724 \$ 38,953 \$ 45,520 \$
 66,867 \$ 85,652 Loan outstanding, end of period (000) \$ 19,250 \$ 19,250 \$ 23,000 \$ 33,000 \$ 41,000 Asset coverage(5)
 \$ 3,167 \$ 3,024 \$ 2,983 \$ 3,032 \$ 3,094 ----- (1) Commencement of investment operations. This
 information includes the initial investment by BlackRock Financial Management, Inc. (2) Net asset value and market value are
 published in BARRON'S on Saturday and THE WALL STREET JOURNAL on Monday. (3) Total investment return is calculated
 assuming a purchase of a share at the current market price on the first day and a sale at the current market price on the last day of
 each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices
 obtained under the Trust's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total
 investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results. (4)
 Annualized. (5) Per \$1,000 of loan outstanding. The information above represents the unaudited operating performance for a share
 outstanding, total investment returns, ratios to average net assets and other supplemental data for each period indicated. This
 information has been determined based upon financial information provided in the financial statements and market value data for
 the Trust's shares. See Notes to Financial Statements. 44 FINANCIAL HIGHLIGHTS ----- BlackRock Income
 Opportunity Trust ----- SIX MONTHS ENDED YEAR ENDED OCTOBER 31, APRIL 30, 2003
 ----- (UNAUDITED) 2002 2001 2000 1999 1998 -----
 ----- PER SHARE OPERATING PERFORMANCE: Net asset value, beginning of period(1) .. \$ 11.83 \$ 11.47 \$ 11.03 \$ 11.45 \$
 11.88 \$ 12.47 ----- Investment operations: Net investment income 0.40 1.15 0.87
 0.70 0.84 0.78 Net realized and unrealized gain (loss) 0.67 (0.05) 0.34 (0.31) (0.46) (0.53) -----
 Net increase from investment operations .. 1.07 1.10 1.21 0.39 0.38 0.25 ----- Dividends and
 distributions: From net investment income (0.39) (0.75) (0.23) (0.39) (0.84) (0.84) From net realized gains (0.24)

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..... \$100,225 \$ 88,594 Reverse repurchase agreements outstanding, end of period (000) \$ 47,747 \$ 44,223 Asset coverage(5) \$ 3,099 \$ 3,003 ----- (1) Commencement of investment operations. This information includes the initial investments by BlackRock Funding, Inc. Net asset value immediately after the closing of the public offering was \$14.25. (2) Net asset value and market value are published in BARRON'S on Saturday and THE WALL STREET JOURNAL on Monday. (3) Total investment return is calculated assuming a purchase of a share at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results. (4) Annualized. (5) Per \$1,000 of reverse repurchase agreements outstanding. The information above represents the unaudited operating performance for a share outstanding, total investment returns, ratios to average net assets and other supplemental data for each period indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Trust's shares. See Notes to Financial Statements. 47 NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

----- NOTE 1. ORGANIZATION & ACCOUNTING POLICIES The BlackRock Broad Investment Grade 2009 Term Trust Inc. ("Broad Investment Grade"), BlackRock Core Bond Trust ("Core Bond"), The BlackRock High Yield Trust ("High Yield"), BlackRock Income Opportunity Trust ("Income Opportunity"), The BlackRock Income Trust Inc. ("Income Trust") and BlackRock Strategic Bond Trust ("Strategic Bond") are registered as diversified, closed-end management investment companies under the Investment Company Act of 1940, as amended. Broad Investment Grade, Income Opportunity and Income Trust are Maryland corporations. Core Bond, High Yield and Strategic Bond are organized as Delaware statutory trusts. On December 3, 1999, Broad Investment Grade transferred a substantial portion of its total assets to a 100% owned regulated investment company subsidiary called BCT Subsidiary, Inc. The financial statements and these notes to the financial statements for Broad Investment Grade are consolidated and include the operations of both Broad Investment Grade and its wholly owned subsidiary after elimination of all intercompany transactions and balances. The following is a summary of significant accounting policies followed by the Trusts. SECURITIES VALUATION: The Trusts value most of their securities on the basis of current market quotations provided by dealers or pricing services selected under the supervision of each Trust's Board of Directors/Trustees (the "Board"). In determining the value of a particular security, pricing services may use certain information with respect to transactions in such securities, quotations from dealers, market transactions in comparable securities, various relationships observed in the market between securities, and calculated yield measures based on valuation technology commonly employed in the market for such securities. Exchange traded options are valued at their last sales price as of the close of options trading on applicable exchanges. In the absence of a last sale, options are valued at the average of the quoted bid and asked prices as of the close of business. A futures contract is valued at the last sale price as of the close of the commodities exchange on which it trades. Short-term securities may be valued at amortized cost. Securities or other assets for which such current market quotations are not readily available are valued at fair value as determined in good faith under procedures established by, and under the general supervision and responsibility of, each Trust's Board. SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded on trade date. Realized and unrealized gains and losses are calculated on the identified cost basis. Each Trust also records interest income on an accrual basis and amortizes premium and/or accretes discount on securities purchased using the interest method. REPURCHASE AGREEMENTS: In connection with transactions in repurchase agreements, a Trust's custodian takes possession of the underlying collateral securities, the value of which at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to ensure the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by a Trust may be delayed or limited. OPTION SELLING/PURCHASING: When a Trust sells or purchases an option, an amount equal to the premium received or paid by the Trust is recorded as a liability or an asset and is 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 the Trust 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 commissions, is also treated as a realized gain or loss. If an option is exercised, the premium paid or received is added to the proceeds from the sale or cost of the purchase in determining whether a Trust has realized a gain or a loss on investment transactions. A Trust, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the security underlying the written option. Options, when used by the Trusts, help in maintaining a targeted duration. Duration is a measure of the price sensitivity of a security or a portfolio to relative changes in interest rates. For instance, a duration of "one" means that a portfolio's or a security's price would be expected to change by approximately one percent with a one percent change in interest rates, while a duration of five would imply that the price would move approximately five percent in relation to a one percent change in interest rates. Option selling and purchasing may be used by the Trusts as an attempt to manage the duration of positions, or collections of positions, so that changes in interest rates do not adversely affect the targeted duration of the portfolio unexpectedly. A call option gives the purchaser of the option the right (but not 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. Put or call options can be purchased or sold to effectively help manage the targeted duration of the portfolio. The main risk that is associated with purchasing options is that the option expires without being exercised. In this case, the option expires worthless and the premium paid for the option is considered the loss. The risk associated with writing call options is that a Trust may forgo the

opportunity for a profit if the market value of the underlying position increases and the option is exercised. The risk in writing put options is that a Trust may incur a loss if the market value of the underlying position decreases and the option is exercised. In addition, as with futures contracts, the Trust risks not being able to enter into a closing transaction for the written option as the result of an illiquid market.

INTEREST RATE SWAPS: In an interest rate swap, one investor 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, an investor may pay a fixed rate and receive a floating rate. Interest rate swaps are efficient as asset/liability management tools. In more complex swaps, the notional principal amount may decline (or amortize) over time. During the term of the swap, changes in the value of the swap are recognized as unrealized gains or losses by "marking-to-market" to reflect the market value of the swap. When the swap is terminated, a Trust will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust's basis in the contract, if any. The Trusts are exposed to credit loss in the event of non-performance by the other party to the swap. However, the Trusts closely monitor swaps and do not anticipate non-performance by any counterparty.

SWAP OPTIONS: 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 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 Trust 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 proceeds from the sale or cost of the purchase in determining whether a Trust 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 Trusts to manage the duration of the Trusts' portfolios in a manner similar to more generic options described above.

INTEREST RATE CAPS: Interest rate caps are similar to interest rate swaps, except that one party agrees to pay a fee, while the other party pays the excess, if any, of a floating rate over a specified fixed or floating rate. Interest rate caps are intended to both manage the duration of the Trusts' portfolios and their exposure to changes in short-term interest rates. Owning interest rate caps reduces a portfolio's duration, making them less sensitive to changes in interest rates from a market value perspective. The effect on income involves protection from rising short-term interest rates, which the Trusts experience primarily in the form of leverage. The Trusts are exposed to credit loss in the event of non-performance by the other party to the interest rate cap. However, the Trusts do not anticipate non-performance by any counterparty. Transaction fees paid or received by the Trusts are recognized as assets or liabilities and amortized or accreted into interest expense or income over the life of the interest rate cap. The asset or liability is subsequently adjusted to the current market value of the interest rate cap purchased or sold. Changes in the value of the interest rate cap are recognized as unrealized gains and losses.

INTEREST RATE FLOORS: Interest rate floors are similar to interest rate swaps, except that one party agrees to pay a fee, while the other party pays the deficiency, if any, of a floating rate under a specified fixed or floating rate. Interest rate floors are used by the Trusts to both manage the duration of the portfolios and their exposure to changes in short-term interest rates. Selling interest rate floors reduces a portfolio's duration, making it less sensitive to changes in interest rates from a market value perspective. The Trusts' leverage provides extra income in a period of falling rates. Selling floors reduces some of that advantage by partially monetizing it as an up front payment which the Trusts receive. The Trusts are exposed to credit loss in the event of non-performance by the other party to the interest rate floor. However, the Trusts do not anticipate non-performance by any counterparty. Transaction fees paid or received by the Trusts are recognized as assets or liabilities and amortized or accreted into interest expense or income over the life of the interest rate floor. The asset or liability is subsequently adjusted to the current market value of the interest rate floor purchased or sold. Changes in the value of the interest rate floor are recognized as unrealized gains and losses.

FINANCIAL FUTURES CONTRACTS: A futures contract is an agreement between two parties to buy and sell a financial instrument for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by "marking-to-market" on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are made or received, depending upon whether unrealized gains or losses are incurred. When the contract is closed, a Trust records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust's basis in the contract. Financial futures contracts, when used by the Trusts, help in maintaining a targeted duration. Futures contracts can be sold to effectively shorten an otherwise longer duration portfolio. In the same sense, futures contracts can be purchased to lengthen a portfolio that is shorter than its duration target. Thus, by buying or selling futures contracts, the Trusts may attempt to manage the duration of positions so that changes in interest rates do not change the duration of the portfolio unexpectedly.

FORWARD CURRENCY CONTRACTS: The Trusts enter into forward currency contracts primarily to facilitate settlement of purchases and sales of foreign securities and to help manage the overall exposure to foreign currency. A forward contract is a commitment to purchase or sell a foreign currency at a future date (usually the security transaction settlement date) at a negotiated forward rate. In the event that a security fails to settle within the normal settlement period, the forward currency contract is renegotiated at a new rate. The gain or loss arising from the difference between the settlement value of the original and renegotiated forward contracts is isolated and is included in net realized gains (losses) from foreign currency transactions. Risks may arise as a result of the potential inability of the counterparties to meet the terms of their contract. Forward currency contracts, when used by the Trusts, help to manage the overall exposure to the foreign currency backing some of the investments held by the Trusts. Forward currency contracts are not meant to be used to

eliminate all of the exposure to the foreign currency, rather they allow the Trusts to limit their exposure to foreign currency within a narrow band to the objectives of the Trusts. FOREIGN CURRENCY TRANSLATION: Foreign currency amounts are translated into United States dollars on the following basis: (i) market value of investment securities, other assets and liabilities--at the New York City noon rates of exchange. (ii) purchases and sales of investment securities, income and expenses--at the rates of exchange prevailing on the respective dates of such transactions. The Trusts isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Trusts isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of portfolio securities sold during the period. Net realized and unrealized foreign exchange gains and losses including realized foreign exchange gains and losses from sales and maturities of foreign portfolio securities, maturities of foreign reverse repurchase agreements, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of interest and discount recorded on the Trusts' books and the U.S. dollar equivalent amounts actually received or paid and changes in unrealized foreign exchange gains and losses in the value of portfolio securities and other assets and liabilities arising as a result of changes in the exchange rate. Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. dollar. SHORT SALES: The Trusts may make short sales of securities as a method of managing potential price declines in similar securities owned. When a Trust makes a short sale, it may borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Trusts may have to pay a fee to borrow the particular securities and may be obligated to pay over any payments received on such borrowed securities. A gain, limited to the price at which the Trust sold the security short, or a loss, unlimited as to 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. SECURITY LENDING: The Trusts may lend their portfolio securities to qualified institutions. The loans are secured by collateral at least equal, at all times, to the market value of the securities loaned. The Trusts may bear the risk of delay in recovery of, or even loss of rights in, the securities loaned should the borrower of the securities fail financially. The Trusts receive compensation for lending their securities in the form of interest on the loan. The Trusts also continue to receive interest on the securities loaned, and any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the accounts of the Trusts. The Trusts did not enter into any security lending transactions during the six months ended April 30, 2003. SEGREGATION: In cases in which the Investment Company Act of 1940, as amended, and the interpretive positions of the Securities and Exchange Commission ("SEC") require that each Trust segregate assets in connection with certain investments (e.g., when issued securities, reverse repurchase agreements or futures contracts), each Trust 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. FEDERAL INCOME TAXES: It is each Trust's (excluding Strategic Bond) intention to continue, and Strategic Bond intends to elect, to be treated as a regulated investment company under the Internal Revenue Code and to distribute sufficient amounts of their taxable income to shareholders. Therefore, no Federal income tax provisions are required. As part of a tax planning strategy, Broad Investment Grade intends to retain a portion of its taxable income and pay an excise tax on the undistributed amounts. DIVIDENDS AND DISTRIBUTIONS: Each Trust declares and pays dividends and distributions to common shareholders monthly from net investment income, net realized short-term capital gains and other sources, if necessary. Net long-term capital gains, if any, in excess of loss carryforwards may be distributed annually. Dividends and distributions are recorded on the ex-dividend date. Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. 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. DEFERRED COMPENSATION PLAN: Under the revised deferred compensation plan approved by each Trust's Board, non-interested Trustees may elect to defer receipt of all or a portion of their annual compensation. As of January 1, 2003, the Board elected to require its members to defer a portion of their annual complex compensation pursuant to the plan. Deferred amounts earn an approximate return as though equivalent dollar amounts had been invested in common shares of other BlackRock Trusts selected by the Directors/Trustees. The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of the Trust. Each Trust may, however, elect to invest in common shares of those Trusts selected by the Directors/Trustees in order to match its deferred compensation obligations. 50 NOTE 2. AGREEMENTS Each Trust has an Investment Management Agreement with BlackRock Advisors, Inc. (the "Advisor"), which is a wholly owned subsidiary of BlackRock, Inc. BlackRock Financial Management, Inc., a wholly owned subsidiary of BlackRock, Inc., serves as sub-advisor to both Core Bond and Strategic Bond. BlackRock, Inc. is an indirect, majority owned subsidiary of The PNC Financial Services Group, Inc. The investment management agreement on Core Bond and Strategic Bond covers both investment advisory and administration services. Broad Investment Grade has an Administration Agreement with Princeton Administrators, L.P. ("Princeton"), an indirect wholly owned affiliate of Merrill Lynch & Co., Inc. High Yield, Income Opportunity and Income Trust have an Administration Agreement with Prudential Investments LLC ("Prudential"), an indirect wholly owned subsidiary of Prudential Financial, Inc. Each Trust's investment advisory fee paid to the Advisor is computed weekly and payable monthly based on an annual rate, 0.55% for Broad Investment Grade, 0.60% for Income Opportunity and 0.65% for Income Trust, of each Trust's average net assets and 0.55% for Core Bond, 1.05% for High Yield and 0.75% for Strategic Bond, of each Trust's average weekly managed assets. The Advisor has voluntarily agreed to waive a portion of the investment advisory fees or other expenses on Strategic Bond as a percentage of its average weekly

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managed assets as follows: 0.20% for the first 5 years of the Trust's operations, 0.15% in year 6, 0.10% in year 7 and 0.05% in year 8. The administration fee paid to each Trust's respective administrator, on other than Core Bond and Strategic Bond, is computed weekly and payable monthly based on an annual rate, 0.15% for Broad Investment Grade, 0.10% for Income Opportunity and 0.20% of the first \$500 million and 0.15% on any excess for Income Trust, of each Trust's average net assets and 0.10% for High Yield based on its average weekly managed assets. Pursuant to the agreements, the Advisor provides continuous supervision of the investment portfolio and pays the compensation of officers of each Trust who are affiliated persons of the Advisor. The Advisor pays occupancy and certain clerical and accounting costs for Core Bond and Strategic Bond. Each Trust's respective administrator pays occupancy and certain clerical and accounting costs of their respective Trust(s). Each Trust bears all other costs and expenses, which include reimbursements to the Advisor for certain operational support services provided to each Trust. Pursuant to the terms of their custody agreements, Core Bond, High Yield, Income Opportunity, Income Trust and Strategic Bond received earnings credits from its custodian for positive cash balances maintained, which are used to offset custody fees during the six months ended April 30, 2003, the amounts earned were \$4,390, \$1,382, \$2,863, \$6,094 and \$6,112, respectively.

NOTE 3. PORTFOLIO SECURITIES Purchases and sales of investment securities, other than short-term investments, dollar rolls and U.S. government securities, for the six months ended April 30, 2003, aggregated as follows: TRUST PURCHASES SALES -----
 ----- Broad Investment Grade \$ 2,793,709 \$ 10,778,554 Core Bond 1,093,538,346 1,050,553,478 High Yield
 12,358,553 12,848,350 Income Opportunity 244,183,901 184,572,814 Income Trust 65,856,647 83,410,882 Strategic Bond
 25,405,635 23,286,165 Purchases and sales of U.S. government securities for the six months ended April 30, 2003, aggregated as follows: TRUST PURCHASES SALES ----- Broad Investment Grade \$ 5,144,969 \$ -- Core Bond
 243,923,419 266,608,529 High Yield -- -- Income Opportunity 5,983,552 19,938,516 Income Trust 130,038,105 122,103,351
 Strategic Bond 1,940,222 3,130,971 The Trust may from time to time purchase in the secondary market certain mortgage pass-through securities packaged or master serviced by affiliates or mortgage related securities containing loans or mortgages originated by PNCBank or its affiliates, including Midland Loan Services, Inc. It is possible under certain circumstances, that PNC Mortgage Securities Corp. or its affiliates, including Midland Loan Services, Inc., could have interests that are in conflict with the holders of these mortgage backed securities, and such holders could have rights against PNC Mortgage Securities Corp. or its affiliates, including Midland Loan Services, Inc. At April 30, 2003, the total cost of securities for Federal income tax purposes and the aggregate gross/net unrealized appreciation/depreciation for securities held by each Trust were as follows: TRUST COST APPRECIATION DEPRECIATION NET ----- Broad Investment Grade \$ 66,508,995 \$ 1,304,156 \$ 326,972 \$ 977,184 Core Bond 586,812,069 22,486,965 4,829,543 17,657,422 High Yield 78,346,743 3,566,520 23,111,645 (19,545,125) Income Opportunity 580,342,044 25,157,150 5,504,589 19,652,561 Income Trust 591,719,044 31,266,170 28,419,859 2,846,311 Strategic Bond 143,798,660 5,946,949 5,422,493 524,456 51 For Federal income tax purposes, the following Trusts had capital loss carryforwards at October 31, 2002: CAPITAL LOSS CAPITAL LOSS TRUST CARRYFORWARDS AMOUNT EXPIRES TRUST CARRYFORWARDS AMOUNT EXPIRES -----
 ----- Broad Investment Grade \$ 472,280 2003 Income Trust \$10,359,634 2003 85,817 2008 27,373,194 2004
 ----- \$ 558,097 33,107,952 2007 ===== High Yield \$ 3,443,603 2007 1,352,206 2008 3,270,311 2008 13,940,898 2009
 ----- 15,159,280 2009 \$86,133,884 ===== 8,468,860 2010 Strategic Bond \$ 316,708 2010 ----- =====
 \$30,342,054 ===== Accordingly, no capital gain distributions are expected to be paid to shareholders of a Trust until that Trust has net realized capital gains in excess of its carryforward amounts. Details of open financial futures contracts at April 30, 2003, were as follows: NUMBER OF EXPIRATION VALUE AT VALUE AT UNREALIZED TRUST CONTRACTS TYPE DATE TRADE DATE APRIL 30, 2003 DEPRECIATION ----- LONG POSITION: Broad Investment Grade 66 10 Yr. U.S. T-Note Jun. '03 \$ 7,644,904 \$ 7,598,250 \$ (46,654) ----- Core Bond 27 10 Yr. U.S. T-Note Jun. '03 3,106,266 3,092,344 \$ (13,922) 1,109 30 Yr. U.S. T-Bond Jun. '03 126,610,509 125,420,969 (1,189,540) ----- \$(1,203,462) ===== Income Opportunity 1,233 10 Yr. U.S. T-Note Jun. '03 142,711,378 141,949,125 \$ (762,253) 1,261 30 Yr. U.S. T-Bond Jun. '03 144,436,146 143,793,407 (642,739) ----- \$(1,404,992) ===== Income Trust 296 10 Yr. U.S. T-Note Jun. '03 34,286,235 34,077,000 \$ (209,235) ----- SHORT POSITION: Core Bond 653 5 Yr. U.S. T-Note Jun. '03 73,837,578 73,972,656 \$ (135,078) ----- Income Opportunity 1,001 5 Yr. U.S. T-Note Jun. '03 112,794,327 113,863,750 \$(1,069,423) ----- Income Trust 204 30 Yr. U.S. T-Bond Jun. '03 23,006,571 23,262,375 \$ (255,804) 30 Eurodollar Jun. '04 7,346,137 7,367,625 (21,488) 30 Eurodollar Sep. '04 7,316,513 7,341,375 (24,862) 30 Eurodollar Dec. '04 7,289,138 7,312,125 (22,987) 30 Eurodollar Mar. '05 7,266,638 7,287,375 (20,737) 25 Eurodollar Jun. '05 6,036,781 6,053,125 (16,344) 25 Eurodollar Sep. '05 6,021,156 6,035,625 (14,469) 25 Eurodollar Dec. '05 6,006,156 6,019,063 (12,907) 25 Eurodollar Mar. '06 5,992,407 6,005,000 (12,593) ----- \$ (402,191) ===== Details of open forward currency contracts at April 30, 2003, were as follows: VALUE AT VALUE AT UNREALIZED SETTLEMENT CONTRACT SETTLEMENT APRIL 30, APPRECIATION TRUST AND FOREIGN CURRENCY DATE TO RECEIVE DATE 2003 (DEPRECIATION) -----
 ----- Core Bond BOUGHT: Euro 5/13/03 5,935,723e \$ 6,291,865 \$ 6,633,688 \$ 341,823 Swedish Krona 5/14/03 7,088,380kr 855,051 866,445 11,394 ----- \$ 353,217 ===== SOLD: Canadian Dollar 5/12/03 20,693,686 \$ \$14,033,260 \$14,420,700 \$(387,440) Swedish Krona 5/14/03 50,391,090kr 5,961,453 6,159,532 (198,079) ----- \$(585,519) ===== 52 Income Trust held one interest rate cap. Under the agreement, Income Trust receives the excess, if any, of a floating rate over a fixed rate. Income Trust paid a transaction fee for each cap. Transaction fees are amortized through the termination of the agreement. Details of the cap at April 30, 2003, were as follows: NOTIONAL VALUE AT AMOUNT FIXED FLOATING TERMINATION AMORTIZED APRIL 30, UNREALIZED (000) RATE RATE DATE COST 2003 DEPRECIATION -----
 ----- \$100,000 7.75% 3-month LIBOR 5/4/03 \$2,423 -- \$(2,423) =====
 Income Trust held one interest rate floor. Under the agreement, Income Trust pays the excess, if any, of a fixed rate over a floating rate. Income Trust received a transaction fee for the floor. Transaction fees are amortized through the termination of the

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agreement. Details of the interest rate floor held at April 30, 2003, were as follows: NOTIONAL VALUE AT AMOUNT FIXED FLOATING TERMINATION AMORTIZED APRIL 30, UNREALIZED (000) RATE RATE DATE COST 2003 DEPRECIATION -----
----- \$35,000 6.00% 1-month LIBOR 1/25/05 \$596,250 \$1,626,107 \$(1,029,857)
===== Details of open interest rate swaps at April 30, 2003, were as follows: NOTIONAL UNREALIZED AMOUNT FIXED FLOATING TERMINATION APPRECIATION TRUST (000) RATE RATE DATE (DEPRECIATION) -----
----- Income Opportunity \$ 10,000 4.47% (a) 3-month LIBOR 11/04/12 \$ (270,265)
7,000 5.23% (a) 3-month LIBOR 11/04/21 (295,267) 26,000 5.46% (a) 3-month LIBOR 10/28/22 (1,840,418) 9,000 5.71% (b)
3-month LIBOR 5/22/06 904,864 47,000 5.73% (b) 3-month LIBOR 5/04/06 2,647,989 ----- \$ 1,146,903 ===== Income Trust \$ 24,000 3.55% (b) 3-month LIBOR 10/24/06 \$841,526 162,000 4.22% (b) 3-month LIBOR 5/04/06 4,441,003 32,000 5.46%
(a) 3-month LIBOR 10/17/12 (3,379,213) 24,000 6.04% (a) 3-month LIBOR 11/15/21 (3,468,213) 46,300 6.07% (a) 3-month LIBOR 8/28/22 (6,899,635) ----- \$(8,464,532) ===== (a) Trust pays fixed interest rate and receives floating rate. (b) Trust pays floating interest rate and receives fixed rate. 53 Transactions in options written during the six months ended April 30, 2003, were as follows: CONTRACTS/ NOTIONAL AMOUNT PREMIUM TRUST (000) RECEIVED ----- CORE BOND Options outstanding at October 31, 2002 138 \$ 199,639 Options expired (138) (199,639) ----- Options outstanding at April 30, 2003 -- \$- ===== INCOME OPPORTUNITY Options outstanding at October 31, 2002 \$ 6,000 \$ 124,460 Options terminated in closing purchase transactions (3,000) (67,800) ----- Options outstanding at April 30, 2003 \$ 3,000 \$ 56,660 ===== INCOME TRUST Options outstanding at October 31, 2002 \$ 22,000 \$ 456,353 Options terminated in closing purchase transactions (11,000) (248,600) ----- Options outstanding at April 30, 2003 \$ 11,000 \$ 207,753 ===== NOTE 4. BORROWINGS REVERSE REPURCHASE AGREEMENTS: The Trusts may enter into reverse repurchase agreements with qualified, third-party broker-dealers as determined by and under the direction of the Trusts' Board. Interest on the value of reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. At the time a Trust enters into a reverse repurchase agreement, it will establish and maintain a segregated account with the lender, containing liquid investment grade securities having a value not less than the repurchase price, including accrued interest of the reverse repurchase agreement. The average daily balance and weighted average interest rate of reverse repurchase agreements during the six months ended April 30, 2003, were as follows: AVERAGE DAILY WEIGHTED AVERAGE TRUST BALANCE INTEREST RATE ----- Broad Investment Grade \$ 19,884,350 1.33% Core Bond 36,555,171 1.00 Income Opportunity 129,194,462 1.33 Income Trust 131,038,100 1.32 Strategic Bond 44,339,122 1.66 DOLLAR ROLLS: The Trusts may enter into dollar rolls in which a Trust sells securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period the Trusts forgo principal and interest paid on the securities. The Trusts will be compensated by the interest earned on the cash proceeds of the initial sale and/or by the lower repurchase price at the future date. LOAN PAYABLE: High Yield has a \$32 million committed credit facility (the "facility"). Under the terms of the facility, the Trust borrows at the London Interbank Offered Rate ("LIBOR") plus facility and administrative fees. In addition, the Trust pays a liquidity fee on the unused portion of the facility. The Trust may borrow up to 331/3% of its total assets up to the committed amount. In accordance with the terms of the debt agreement, the Trust has pledged its portfolio assets as collateral for the borrowing. For the six months ended April 30, 2003, High Yield borrowed a daily weighted average balance of \$19,250,000 at a weighted average interest rate at 1.96%. 54 NOTE 5. CAPITAL There are 200 million of \$0.01 par value common shares authorized for Broad Investment Grade, Income Opportunity and Income Trust. There are an unlimited number of \$0.001 par value common shares authorized for Core Bond, High Yield and Strategic Bond. At April 30, 2003, the common shares outstanding and the shares owned by affiliates of the Advisor of each Trust were: COMMON SHARES COMMON SHARES TRUST OUTSTANDING OWNED ----- Broad Investment Grade 2,957,093 7,093 Core Bond 27,018,774 9,425 High Yield 6,367,294 -- Income Opportunity 34,449,693 -- Income Trust 63,247,058 -- Strategic Bond 7,025,735 9,425 During the six months ended April 30, 2003, High Yield, Income Trust and Strategic Bond issued 15,326, 372,241 and 9,581 shares, respectively, under the terms of each Trust's Dividend Reinvestment Plan. NOTE 6. DIVIDENDS Subsequent to April 30, 2003, the Board of each of the Trusts declared dividends from undistributed earnings per common share payable May 30, 2003, to shareholders of record on May 15, 2003. The per share common dividends declared were as follows: COMMON DIVIDEND TRUST PER SHARE ----- Broad Investment Grade \$0.075000 Core Bond 0.100000 High Yield 0.096875 Income Opportunity 0.070000 Income Trust 0.051042 Strategic Bond 0.120000 NOTE 7. COMMITMENT On October 9, 1997, Income Opportunity and Income Trust each entered into a commitment to purchase an aggregate of up to \$22,000,000 and \$20,000,000, respectively, of Overseas Private Investment Corp. securities prior to the commitment expiration on September 30, 2003. As of April 30, 2003, Income Opportunity and Income Trust have purchased such securities with market values of \$16,260,093 and \$14,781,903, respectively. As of April 30, 2003, the remaining outstanding commitments of Income Opportunity and Income Trust were \$8,975,780 and \$8,159,800, respectively. NOTE 8. SUBSEQUENT EVENT On May 22, 2003, the Boards of High Yield and Strategic Bond voted to change each Trust's monthly distribution per share, effective with the distribution declared on June 2, 2003, to \$0.0905 and \$0.13, respectively. 55 DIVIDEND REINVESTMENT PLANS ----- Pursuant to each Trust's respective Dividend Reinvestment Plan (the "Plan"), shareholders of Broad Investment Grade, Income Opportunity and Income Trust may elect, while shareholders of Core Bond, High Yield and Strategic Bond are automatically enrolled, to have all distributions of dividends and capital gains reinvested by EquiServe Trust Company, N.A. (the "Plan Agent") in the respective Trust's shares pursuant to the Plan. Shareholders who do not participate in the Plan will receive all distributions in cash paid by check and mailed directly to the shareholders of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, which serves as agent for the shareholders in administering the Plan. After Broad Investment Grade and/or Income Opportunity Trust declares a dividend or determines to make a capital gain distribution, the Plan Agent will acquire shares for the participants' account, by the purchase of

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outstanding shares on the open market, on the Trust's primary exchange or elsewhere ("open market purchases"). The Trust will not issue any new shares under the Plan. After Core Bond, High Yield, Income Trust and/or Strategic Bond declares a dividend or determines to make a capital gain distribution, the Plan Agent will acquire shares for the participants' account, depending upon the circumstances described below, either (i) through receipt of unissued but authorized shares from the Trust ("newly issued shares") or (ii) by open market purchases. If, on the dividend payment date, the NAV is equal to or less than the market price per share plus estimated brokerage commissions (such condition being referred to herein as "market premium"), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participants. The number of newly issued shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the NAV on the date the shares are issued. However, if the NAV is less than 95% of the market price on the payment date, the dollar amount of the dividend will be divided by 95% of the market price on the payment date. If, on the dividend payment date, the NAV is greater than the market value per share plus estimated brokerage commissions (such condition being referred to herein as "market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participants in open-market purchases. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by each Trust. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any Federal income tax that may be payable on such dividends or distributions. Each Trust reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, each Trust reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan should be directed to the Plan Agent at 150 Royall Street, Canton, MA 02021 or (800) 699-1BFM. ADDITIONAL INFORMATION

----- The Joint Annual Meeting of Shareholders was held on May 22, 2003, to elect a certain number of Directors/Trustees for each of the following Trusts to three year terms, unless otherwise indicated, expiring in 2006: BROAD INVESTMENT GRADE ----- Elected the Class III Directors and in accordance with Maryland law elected Walter F. Mondale, for the remainder of his term, as follows: DIRECTOR VOTES FOR VOTES WITHHELD ----- Andrew F. Brimmer 2,755,165 33,798 Kent Dixon 2,756,365 32,598 Robert S. Kapito 2,756,665 32,298 Walter F. Mondale(1) 2,741,445 47,518 CORE BOND ----- Elected the Class II Trustees as follows: TRUSTEE VOTES FOR VOTES WITHHELD ----- Frank J. Fabozzi 26,044,831 154,361 Walter F. Mondale 25,961,379 237,813 Ralph L. Schlosstein 26,047,238 151,954 ----- (1) Walter F. Mondale's term will expire in 2005. 56 HIGH YIELD ----- Elected the Class I Trustees as follows: TRUSTEE VOTES FOR VOTES WITHHELD ----- Richard E. Cavanagh 6,052,239 57,124 James Clayburn La Force, Jr. 6,047,853 61,510 INCOME OPPORTUNITY ----- Elected the Class II Directors and in accordance with Maryland law elected Robert S. Kapito, for the remainder of his term, as follows: DIRECTOR VOTES FOR VOTES WITHHELD ----- Frank J. Fabozzi 31,940,094 248,935 Robert S. Kapito(2) 31,945,672 243,357 Walter F. Mondale 31,855,311 333,718 Ralph L. Schlosstein 31,950,515 238,514 INCOME TRUST ----- Elected the Class II Directors and in accordance with Maryland law elected Robert S. Kapito, for the remainder of his term, as follows: DIRECTOR VOTES FOR VOTES WITHHELD ----- Frank J. Fabozzi 58,207,702 677,691 Robert S. Kapito2 58,219,376 666,017 Walter F. Mondale 57,970,768 914,625 Ralph L. Schlosstein 58,222,291 663,102 STRATEGIC BOND ----- Elected the Class II Trustees as follows: TRUSTEE VOTES FOR VOTES WITHHELD ----- Frank J. Fabozzi 6,752,233 52,587 Walter F. Mondale 6,726,221 78,599 Ralph L. Schlosstein 6,750,877 53,943 ----- (2) Robert S. Kapito's term will expire in 2004. 57 [This page intentionally left blank.] [This page intentionally left blank.] BlackRock Closed-End Funds Directors/Trustees Ralph L. Schlosstein, CHAIRMAN Andrew F. Brimmer Richard E. Cavanagh Kent Dixon Frank J. Fabozzi Robert S. Kapito James Clayburn La Force, Jr. Walter F. Mondale Officers Robert S. Kapito, PRESIDENT Henry Gabbay, TREASURER Anne Ackerley, VICE PRESIDENT Richard M. Shea, VICE PRESIDENT/TAX James Kong, ASSISTANT TREASURER Vincent B. Tritto, SECRETARY Brian P. Kindelan, ASSISTANT SECRETARY Investment Advisor BlackRock Advisors, Inc. 100 Bellevue Parkway Wilmington, DE 19809 (800) 227-7BFM Sub-Advisor(1) BlackRock Financial Management, Inc. 40 East 52nd Street New York, NY 10022 Custodian State Street Bank and Trust Company One Heritage Drive North Quincy, MA 02171 Transfer Agent EquiServe Trust Company, N.A. 150 Royall Street Canton, MA 02021 (800) 699-1BFM Independent Accountants Deloitte & Touche LLP 200 Berkeley Street Boston, MA 02116 Legal Counsel Skadden, Arps, Slate, Meagher & Flom LLP Four Times Square New York, NY 10036 Legal Counsel - Independent Directors/Trustees Debevoise & Plimpton 919 Third Avenue New York, NY 10022 This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of Trust shares. Statements and other information contained in this report are as dated and are subject to change.

----- BlackRockAdvisors, Inc.(2) Princeton Administrators, L.P.(2) Prudential Investments LLC(2) 100 Bellevue Parkway P.O. Box 9095 Gateway Center Three Wilmington, DE 19809 Princeton, NJ 08543-9095 100 Mulberry Street (800) 227-7BFM (800) 543-6217 Newark, NJ 07102-4077 BlackRock Core Bond Trust BlackRock Broad Investment Grade (800) 227-7BFM BlackRock Strategic Bond Trust 2009 Term Trust BlackRock High Yield Trust BlackRock Income Opportunity Trust BlackRock Income Trust ----- (1) For BlackRock Core Bond Trust and BlackRock Strategic Bond Trust only. (2) Provides administrative services for the Trust(s) listed directly below its name. The Trusts 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 is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be householded 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 Trusts at (800) 227-7BFM. This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of Trust shares. Statements and other information contained in this report are as dated and are subject to change. [BLACKROCK LOGO] ITEM 2. CODE OF ETHICS. Not applicable for semi-annual reports. ITEM 3. AUDIT COMMITTEE

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FINANCIAL EXPERT. Not applicable for semi-annual reports. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES. Not applicable for semi-annual reports. ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. Not applicable for semi-annual reports. ITEM 6. [RESERVED.] ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. Not applicable for semi-annual reports. ITEM 8. [RESERVED.] ITEM 9. CONTROLS AND PROCEDURES. The Trust's principal executive officer and principal financial officer have concluded that the Trust's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report. There were no significant changes or corrective actions with regard to significant deficiencies or material weaknesses in the Trust's internal controls or in other factors that could significantly affect the Trust's internal controls subsequent to the date of their evaluation. ITEM 10. EXHIBITS. (a) Code of Ethics - Not applicable for semi-annual reports. (b)(1) Certification of Principal Executive Officer. (b)(2) Certification of Principal Financial Officer. SIGNATURES 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. (Registrant) The BlackRock Income Trust Inc. By: /s/ Henry Gabbay ----- Name: Henry Gabbay Title: Treasurer Date: 6/30/03 Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By: /s/ Robert S. Kapito ----- Name: Robert S. Kapito Title: Principal Executive Officer Date: 6/30/03 By: /s/ Henry Gabbay ----- Name: Henry Gabbay Title: Principal Financial Officer Date: 6/30/03