

BlackRock Enhanced Government Fund, Inc.
Form N-CSR
March 08, 2011

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., 40 East 52nd Street, New York, NY 10022

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

Date of fiscal year end: 12/31/2010

Date of reporting period: 12/31/2010

Item 1 Report to Stockholders

December 31, 2010

Annual Report

BlackRock Enhanced Government Fund, Inc. (EGF)

Not FDIC Insured No Bank Guarantee May Lose Value

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Section 19(b) Disclosure

BlackRock Enhanced Government Fund, Inc. (EGF) (the Fund), acting pursuant to a Securities and Exchange Commission (SEC) exemptive order and with 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 \$0.08 per share on a monthly basis.

The fixed amounts distributed per share are subject to change at the discretion of the 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.

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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.

Please refer to the Additional Information for a cumulative summary of the Section 19(a) notices for the Fund's current fiscal period. Section 19(a) notices for the Fund are available on the BlackRock website <http://www.blackrock.com>.

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Dear Shareholder

Economic data fluctuated widely throughout 2010 as the global economy continued to emerge from the Great Recession. As the year drew to a close, it became clear that cyclical stimulus had beaten out structural problems as economic data releases generally became more positive and financial markets showed signs of continuing improvement.

Debt and deflationary risks remained present throughout 2010, causing central banks worldwide to respond with unprecedented actions, most notably a second round of quantitative easing (informally known as QE2) from the US Federal Reserve Board (the Fed). Inflation remained a non-issue in the developed world, but continued to rear its ugly head in some emerging economies, most evidently in China. Global and US gross domestic product (GDP) growth both continued in a positive direction but remained subpar compared to most historical economic recoveries. In the United States, the corporate sector has been an important area of strength and consumer spending has shown improvement, although weakness in the housing and labor markets continues to burden the economy.

Stocks moved higher in the early months of 2010 on the continuation of the 2009 asset recovery story. The mid-year months saw a double-digit percentage correction on the back of the Greek sovereign debt crisis and a stalling in jobs growth, leading to fears of a double-dip recession. After touching a late summer low, equity markets rallied through year end as these concerns receded. The announcement of QE2 and extension of the Bush-era tax cuts further boosted equities as the year came to a close. Although the course was uneven and high volatility remained a constant for stocks, equity markets globally ended the year strong. Emerging markets outpaced the developed world in terms of economic growth and posted respectable gains for the year despite sovereign debt problems and heightening inflationary pressures. US stocks recorded double-digit percentage gains for the second consecutive year. Small cap stocks outperformed large caps as investors began to move into higher-risk assets.

In fixed income markets, yields trended lower over most of the year as investors continued to favor safer assets. That trend reversed abruptly in the fourth quarter when market fears abated and investors began seeking higher-risk assets, driving yields sharply upward through year end. However, yields were lower overall for the year and fixed income markets finished 2010 in positive territory. Although fixed income securities generally underperformed equities, high yield bonds only marginally trailed large cap stocks. Conversely, the tax-exempt municipal market was dealt an additional blow as it became apparent that an extension of the Build America Bond program was unlikely. In addition, the fourth quarter brought an increase in negative headlines regarding fiscal challenges faced by state and local governments, sparking additional volatility in the municipal market.

Cash investments, as represented by the 3-month Treasury bill, returned only a fraction over 0% for the year as short-term interest

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rates remained low.

Yields on money market securities remain near all-time lows.

Total Returns as of December 31, 2010	6-month	12-month
US large cap equities (S&P 500 Index)	23.27%	15.06%
US small cap equities (Russell 2000 Index)	29.38	26.85
International equities (MSCI Europe, Australasia, Far East Index)	24.18	7.75
3-month Treasury bill (BofA Merrill Lynch 3-Month Treasury Bill Index)	0.08	0.13
US Treasury securities (BofA Merrill Lynch 10-Year US Treasury Index)	(1.33)	7.90
US investment grade bonds (Barclays Capital US Aggregate Bond Index)	1.15	6.54
Tax-exempt municipal bonds (Barclays Capital Municipal Bond Index)	(0.90)	2.38
US high yield bonds (Barclays Capital US Corporate High Yield 2% Issuer Capped Index)	10.04	14.94

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

While no one can peer into a crystal ball and eliminate the uncertainties presented by the economic landscape and financial markets, BlackRock can offer investors the next best thing: partnership with the world's largest asset management firm and a unique global perspective that allows us to identify trends early and capitalize on market opportunities. For additional market perspective and investment insight, visit www.blackrock.com/shareholdermagazine, where you will find the most recent issue of our award-winning Shareholder® magazine, as well as its quarterly companion newsletter, Shareholder Perspectives. As always, we thank you for entrusting BlackRock with your investments, and we look forward to your continued partnership in the months and years ahead.

Sincerely,

Rob Kapito
President, BlackRock Advisors, LLC

THIS PAGE NOT PART OF YOUR FUND REPORT 3

Fund Summary as of December 31, 2010

Fund Overview

BlackRock Enhanced Government Fund, Inc.'s (EGF) (the Fund) 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.

Performance

For the 12 months ended December 31, 2010, the Fund returned (3.54)% based on market price and 4.95% based on net asset value (NAV). For the same period, the Fund's benchmark, Citigroup Government/Mortgage Index, posted a total return of 5.59%. All returns reflect reinvestment of dividends and distributions. The Fund moved from a premium to NAV to a discount by period end, which accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Fund's underweight positions relative to the benchmark in US Treasuries and government agency debt detracted from performance as these sectors rallied over most of the year when fears of a double-dip recession drove investors to safer assets. During the first half of the year, the call-writing strategy hampered performance as calls written on mortgages and interest rates lost value when Treasuries rallied. In addition, the Fund employed interest rate swaps to synthetically reduce the duration of its portfolio. As interest rates declined, the swaps lost value, negatively impacting performance. The negative impact of these positions during the first half of the year was slightly offset toward the end of the year when the Treasury market sold off, pushing yields higher. Although spread sectors saw significant volatility in 2010, they outperformed government sectors for the 12-month period overall. Spread sectors lost ground in the earlier part of the year, but rebounded strongly later in the year as investor fears abated and demand for yield rose sharply. The Fund benefited from its spread sector holdings, which included overweights in residential mortgage-backed securities and corporate debt as well as out-of-index allocations to commercial mortgage-backed securities and asset-backed securities. In addition, the Fund's yield curve-flattening bias contributed positively to overall performance as interest rates declined over most of the year. The Fund engaged in financial futures contracts for purposes of managing risk related to duration and yield curve positioning, which overall was beneficial to performance. 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,

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economic or other conditions.

These views are not intended to be a forecast of future events and are no guarantee of future results.

Fund Information

Symbol on New York Stock Exchange	EGF
Initial Offering Date	October 31, 2005
Yield on Closing Market Price as of December 31, 2010 (\$15.51) ¹	6.19%
Current Monthly Distribution per share ²	\$0.08
Current Annualized Distribution per share ²	\$0.96
Leverage as of December 31, 2010 ³	28%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee

future results.

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

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 accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 5.

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

	12/31/10	12/31/09	Change	High	Low
Market Price	\$15.51	\$17.07	(9.14)%	\$17.09	\$15.26
Net Asset Value	\$16.40	\$16.59	(1.15)%	\$16.94	\$16.34

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

Portfolio Composition

	12/31/10	12/31/09
U.S. Government Sponsored		
Agency Securities	54%	63%
U.S. Treasury Obligations	33	18
Non-Agency Mortgage-Backed		
Securities	6	11
Preferred Securities	4	4
Asset-Backed Securities	2	2
Taxable Municipal Bonds	1	1
Foreign Agency Obligations		1

Credit Quality Allocations⁴

12/31/10 12/31/09

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AAA/Aaa ⁵	91%	90%
AA/Aa	3	3
A	2	3
BBB/Baa	3	3
CCC/Caa	1	1

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

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

⁴ BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010

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 through borrowings by entering into reverse repurchase agreements and Treasury rolls. 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 issues debt securities 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 debt securities based on the lower short-term interest rates. At the same time, the Fund's total portfolio of \$130 million earns income based on long-term interest rates. In this case, the interest expense of the debt securities 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 of 6%, the yield curve has a negative slope. In this case, the Fund pays interest expense on the 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 debt securities do 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 leverage from debt securities.

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, the Fund is permitted to borrow up to $33\frac{1}{3}\%$ of total managed assets. As of December 31, 2010, the Fund had economic leverage of 28% from reverse repurchase agreements as a percentage of its total of managed assets.

Derivative Financial Instruments

The Fund may invest in various derivative instruments, including financial futures contracts, swaps, foreign currency exchange contracts and options, as specified in Note 2 of the Notes to Financial Statements, which may constitute forms of economic leverage. Such instruments are used to obtain exposure to a market without owning or taking physical custody of securities or to hedge market, interest rate and/or foreign currency exchange rate risks. Such derivative instruments involve risks, including the imperfect correlation between the value of a derivative instrument and the underlying asset, possible default of the counterparty to the transaction or illiquidity of the derivative instrument. The

Fund's ability to successfully use a derivative instrument depends on the investment advisor's ability to accurately predict pertinent market movements, which cannot be assured. The use of derivative 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

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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's investments in these instruments are discussed in detail in the Notes to Financial Statements.

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Schedule of Investments December 31, 2010 (Percentages shown are based on Net Assets)

	Par (000)	Value
Asset-Backed Securities (a)		
First Franklin Mortgage Loan Asset-Backed Certificates, Series 2005-FF2, Class M2, 0.70%, 3/25/35	\$ 3,220	\$ 2,949,906
GSAA Home Equity Trust, Series 2005-1, Class AF2, 4.32%, 11/25/34	447	449,960
Securitized Asset-Backed Receivables LLC Trust:		
Series 2005-0P1, Class M2, 0.71%, 1/25/35	2,000	1,503,470
Series 2005-0P2, Class M1, 0.69%, 10/25/35	1,025	512,696
Soundview Home Equity Loan Trust, Series 2007-OPT5, Class 2A2, 1.21%, 10/25/37	2,500	1,511,953
Total Asset-Backed Securities 3.6%		6,927,985
Non-Agency Mortgage-Backed Securities		
Collateralized Mortgage Obligations 3.5%		
Bank of America Mortgage Securities Inc., Series 2003-J, Class 2A1, 3.22%, 11/25/33 (a)	326	316,117
Bear Stearns Alt-A Trust, Series 2004-13, Class A1, 0.63%, 11/25/34 (a)	429	356,843
CS First Boston Mortgage Securities Corp., Series 2005-11, Class 6A5, 6.00%, 12/25/35	781	742,139
Countrywide Alternative Loan Trust, Series 2006-41CB, Class 2A17, 6.00%, 1/25/37	1,100	952,080
Homebanc Mortgage Trust, Series 2005-4, Class A1, 0.53%, 10/25/35 (a)	1,682	1,260,334
Thornburg Mortgage Securities Trust (a):		
Series 2006-6, Class A1, 0.37%, 11/25/46	1,552	1,530,340
Series 2007-2, Class A2A, 0.39%, 6/25/37	1,108	1,075,898
WaMu Mortgage Pass-Through Certificates, Series 2005-AR7, Class A1, 2.79%, 8/25/35 (a)	359	356,696
		6,590,447
Commercial Mortgage-Backed Securities 5.1%		
Bear Stearns Commercial Mortgage Securities, Series 2001-T0P2, Class A2, 6.48%, 2/15/35	696	698,903
Commercial Mortgage Pass-Through Certificates, Series 2007-C9, Class A2, 5.81%, 12/10/49 (a)	3,250	3,371,238
Credit Suisse Mortgage Capital Certificates,		

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Series 2007-C5, Class A2, 5.59%, 9/15/40	3,400	3,500,736
LB-UBS Commercial Mortgage Trust, Series 2007-C1, Class A2, 5.32%, 2/15/40	2,000	2,050,808
		9,621,685

Interest Only Collateralized Mortgage Obligations 0.0%

CitiMortgage Alternative Loan Trust, Series 2007-A5, Class 1A7, 6.00%, 5/25/37	510	58,466
Total Non-Agency Mortgage-Backed Securities 8.6%		16,270,598

	Par (000)	Value
Preferred Securities		
Capital Trusts		
Diversified Financial Services 1.1%		
JPMorgan Chase Capital XXII, 6.45%, 1/15/87	\$ 2,000	\$ 1,992,198
Electric Utilities 1.0%		
PPL Capital Funding, 6.70%, 3/30/67 (a)	2,000	1,960,000
Insurance 1.3%		
The Allstate Corp., 6.50%, 5/15/67 (a)	2,000	2,005,000
ZFS Finance (USA) Trust V, 6.50%, 5/09/67 (a)(b)	504	491,400
		2,496,400
Total Capital Trusts 3.4%		6,448,598
Trust Preferreds	Shares	
Capital Markets 1.0%		
Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67	80,000	1,874,948
Media 1.1%		
Comcast Corp., 6.63%, 5/15/56	80,000	2,018,357
Total Trust Preferreds 2.1%		3,893,305
Total Preferred Securities 5.5%		10,341,903

	Par (000)	
Taxable Municipal Bonds		
State of California, GO, Various Purpose 3, Mandatory Put Bonds, 5.65%, 4/01/39 (a)	\$ 1,680	1,774,584
Total Taxable Municipal Bonds 0.9%		1,774,584

U.S. Government Sponsored Agency Securities

Agency Obligations 3.4%		
Fannie Mae, 5.25%, 8/01/12	2,460	2,628,016
Federal Farm Credit Bank, 4.55%, 6/08/20	3,500	3,778,463
		6,406,479

Collateralized Mortgage Obligations 11.5%

Ginnie Mae Mortgage-Backed Securities, Class C (a):

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Series 2005-87, 5.33%, 9/16/34	10,000	11,062,550
Series 2006-3, 5.24%, 4/16/39	10,000	10,762,793
		21,825,343

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedule of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list:

GO	General Obligation Bonds
LIBOR	London InterBank Offered Rate

See Notes to Financial Statements.

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

	Par (000)	Value
U.S. Government Sponsored Agency Securities		
Interest Only Collateralized Mortgage Obligations 0.6%		
Ginnie Mae Mortgage-Backed Securities (a):		
Series 2006-30, Class IO, 0.80%, 5/16/46	\$ 8,048	\$ 292,860
Series 2007-20, Class SA, 5.69%, 4/20/37	1,830	191,764
Series 2007-40, Class SN, 6.23%, 7/20/37	2,120	287,216
Series 2008-7, Class SA, 3.14%, 2/20/38	3,813	439,041
		1,210,881
Mortgage-Backed Securities 62.1%		
Fannie Mae Mortgage-Backed Securities:		
4.00%, 4/01/24 1/01/41 (c)	8,966	9,244,258
4.50%, 4/01/39 8/01/40	22,735	23,429,318
4.68%, 2/01/13	5,111	5,280,380
5.00%, 11/01/33 2/01/40 (d)	21,916	23,170,530
5.24%, 4/01/12 (d)	7,939	8,194,546
5.50%, 7/01/17 1/15/41 (c)(d)(e)	29,711	31,976,511
5.71%, 2/01/12	2,466	2,554,057
6.00%, 2/01/36 3/01/38	12,130	13,205,938
Freddie Mac Mortgage-Backed Securities,		
4.50%, 5/01/34	796	822,166
Ginnie Mae Mortgage-Backed Securities,		
5.00%, 11/15/35	30	32,340
		117,910,044
Total U.S. Government Sponsored Agency Securities 77.6%		147,352,747
U.S. Treasury Obligations		
U.S. Treasury Bonds:		
4.63%, 2/15/40 (d)	8,495	8,898,512
4.38%, 5/15/40 (f)	10,000	10,048,400
3.88%, 8/15/40 (f)	12,000	11,053,128
U.S. Treasury Notes:		
0.50%, 11/15/13	5,225	5,157,645
1.88%, 6/30/15 (f)	29,125	29,241,034
1.38%, 11/30/15	1,325	1,287,631
2.50%, 6/30/17 (f)	18,000	17,915,625
2.63%, 8/15/20 (d)	4,000	3,792,188

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2.63%, 11/15/20 (f)	5,000	4,716,405
Total U.S. Treasury Obligations 48.5%		92,110,568
Total Long-Term Investments		
(Cost \$271,583,683) 144.7%		274,778,385
Short-Term Securities	Shares	
BlackRock Liquidity Funds, TempFund, Institutional Class, 0.17% (g)(h)	13,611,942	13,611,942
Total Short-Term Securities		
(Cost \$13,611,942) 7.2%		13,611,942
Total Investments Before Options Written		
(Cost \$285,195,625*) 151.9%		288,390,327

	Notional Amount (000)	Value
Options Written		
Over-the-Counter Call Swaptions (0.4)%		
Pay a fixed rate of 0.87% and receive a floating rate based on 3-month LIBOR, Expires 1/27/11, Broker Citibank NA	\$ 25,000	\$ (51,000)
Pay a fixed rate of 2.25% and receive a floating rate based on 3-month LIBOR, Expires 1/27/11, Broker Citibank NA	40,000	(285,640)
Pay a fixed rate of 3.45% and receive a floating rate based on 3-month LIBOR, Expires 1/27/11, Broker Citibank NA	20,000	(263,220)
Pay a fixed rate of 4.20% and receive a floating rate based on 3-month LIBOR, Expires 1/27/11, Broker Citibank NA	5,000	(138,865)
Total Options Written		
(Premiums Received \$380,000) (0.4)%		(738,725)
Total Investments, Net of Options Written 151.5%		287,651,602
Liabilities in Excess of Other Assets (51.5)%		(97,733,423)
Net Assets 100.0%		\$189,918,179

* The cost and unrealized appreciation (depreciation) of investments as of December 31, 2010, as computed for federal income tax purposes were as follows:

Aggregate cost	\$285,196,690
Gross unrealized appreciation	\$ 8,620,148
Gross unrealized depreciation	(5,426,511)
Net unrealized appreciation	\$ 3,193,637

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- (a) Variable rate security. Rate shown is as of report date.
- (b) Security exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions exempt from registration to qualified institutional investors.
- (c) Represents or includes a to-be-announced (TBA) transaction. Unsettled TBA transactions as of report date were as follows:

Counterparty	Market Value	Unrealized Appreciation (Depreciation)
CitiGroup Global Markets, Inc.	\$ 855,875	\$ 3,502
Deutsche Bank Securities, Inc.	\$ 1,925,719	\$ 3,345
Goldman Sachs & Co.	\$ 1,193,626	\$(14,999)
JP Morgan Securities, Inc.	\$ 62,860	\$ 4,643
Morgan Stanley & Co., Inc.	\$ 1,069,844	\$ (36)

(d) All or a portion of security has been pledged as collateral in connection with swaps.

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

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

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

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010 7

Schedule of Investments (continued)

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

Affiliate	Shares Held at December 31, 2009	Net Activity	Shares Held at December 31, 2010	Income
BlackRock Liquidity Funds, TempFund, Institutional Class	2,181,318	11,430,624	13,611,942	\$ 8,357

Financial futures contracts purchased as of December 31, 2010 were as follows:

Contracts	Issue	Exchange	Expiration	Notional Value	Unrealized Appreciation (Depreciation)
1	Euro-Dollar Future	Chicago Mercantile	June 2011	\$248,715	\$ 185
1	Euro-Dollar Future	Chicago Mercantile	September 2011	\$248,515	97
1	Euro-Dollar Future	Chicago Mercantile	December 2011	\$248,415	(240)
1	Euro-Dollar Future	Chicago Mercantile	March 2012	\$248,053	(428)
1	Euro-Dollar Future	Chicago Mercantile	June 2012	\$247,615	(665)
1	Euro-Dollar Future	Chicago Mercantile	September 2012	\$247,153	(890)
Total					\$ (1,941)

Reverse repurchase agreements outstanding as of December 31, 2010 were as follows:

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Counterparty	Interest Rate	Trade Date	Maturity Date	Net Closing Amount	Face Amount
Credit Suisse Securities (USA) LLC	0.13%	9/02/10	Open	\$12,383,387	\$ 12,375,000
Barclays Capital, Inc.	0.25%	11/01/10	Open	30,411,986	30,399,219
Barclays Capital, Inc.	0.26%	11/01/10	Open	10,330,907	10,326,750
Credit Suisse Securities (USA) LLC	0.29%	11/01/10	Open	17,267,330	17,260,000
Credit Suisse Securities (USA) LLC	0.02%	11/18/10	Open	4,867,195	4,868,750
Total					\$75,260,805 \$ 75,229,719

Interest rate swaps outstanding as of December 31, 2010 were as follows:

Fixed Rate	Floating Rate	Counterparty	Expiration	Notional Amount (000)	Unrealized Appreciation (Depreciation)
0.83% ¹	3-month LIBOR	Deutsche Bank AG	12/15/12	\$ 25,000	\$ 27,758
4.63% ²	3-month LIBOR	Deutsche Bank AG	3/18/13	\$ 50,000	(4,083,306)
5.71% ²	3-month LIBOR	Deutsche Bank AG	6/22/17	\$ 25,000	(4,581,579)
5.96% ²	3-month LIBOR	Deutsche Bank AG	12/27/37	\$ 23,900	(7,430,629)
Total					\$(16,067,756)

¹ Pays floating interest rate and receives fixed rate.

² Pays fixed interest rate and receives floating rate.

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivatives, which are as follows:

Level 1 price quotations in active markets/exchanges for identical assets and liabilities

Level 2 other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities)

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ties (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

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

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

See Notes to Financial Statements.

8 BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010

Schedule of Investments (concluded)

The following tables summarize the inputs used as of December 31, 2010 in determining the fair valuation of the Fund's investments and derivatives:

Valuation Inputs	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Long-Term Investments:				
Asset-Backed Securities		\$ 6,927,985		\$ 6,927,985
Non-Agency Mortgage-Backed Securities		16,270,598		16,270,598
Preferred Securities	\$ 3,893,306	6,448,597		10,341,903
Taxable Municipal Bonds		1,774,584		1,774,584
U.S. Government Sponsored Agency Securities		147,352,747		147,352,747
U.S. Treasury Obligations		92,110,568		92,110,568
Short-Term Securities:				
Money Market Fund	13,611,942			13,611,942
Total	\$ 17,505,248	\$ 270,855,079		\$ 288,390,327

Derivative Financial Instruments¹

Valuation Inputs	Level 1	Level 2	Level 3	Total
Assets:				
Interest rate contracts	\$ 282	\$ 27,758		\$ 28,040
Liabilities:				
Interest rate contracts	(2,223)	(16,834,239)		(16,836,462)
Total	\$ (1,941)	\$ (16,806,481)		\$ (16,808,422)

¹ Derivative financial instruments are financial futures contracts, swaps and options written. Financial futures contracts and swaps are shown at the unrealized appreciation/depreciation on the instrument and options written are shown at value.

The following table is a reconciliation of Level 3 investments for which significant unobservable inputs were used in determining fair value:

	Asset-Backed Securities	Non-Agency Mortgage-Backed Securities	Total
Assets:			
Balance, as of			
December 31, 2009	\$ 1,255,800	\$ 1,279,621	\$ 2,535,421
Accrued discounts/premium		(34,847)	(34,847)

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Net realized gain (loss)		(4,884)	(4,884)
Net change in unrealized appreciation/depreciation ²	1,694,106	271,331	1,965,437
Purchases			
Sales		(500,675)	(500,675)
Transfers in ³			
Transfers out ³	(2,949,906)	(1,010,546)	(3,960,452)

Balance, as of

December 31, 2010

² Included in the related change in unrealized appreciation/depreciation in the Statement of Operations. The change in unrealized appreciation/depreciation on securities still held at December 31, 2010 was \$0.

The following table is a reconciliation of Level 3 derivative financial instruments for which significant unobservable inputs were used in determining fair value:

	Interest Rate Contracts
Liabilities:	
Balance, as of December 31, 2009	\$(129,697)
Accrued discounts/premium	
Net realized gain (loss)	
Net change in unrealized appreciation/depreciation	129,697
Purchases	
Sales	
Transfers in ³	
Transfers out ³	
Balance, as of December 31, 2010	

³ The Fund's policy is to recognize transfers in and transfers out as of the end of the period of the event or the change in circumstances that caused the transfer.

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010 9

Statement of Assets and Liabilities

December 31, 2010

Assets

Investments at value unaffiliated (cost \$271,583,683)	\$ 274,778,385
Investments at value affiliated (cost \$13,611,942)	13,611,942
Unrealized appreciation on swaps	27,758
Cash	75,000
Foreign currency at value (cost \$2,045)	2,139
Interest receivable	1,364,018
Investments sold receivable	403,627
Swaps receivable	89,755
Margin variation receivable	888
Swaps premiums paid	84
Prepaid expenses	12,669
Total assets	290,366,265

Liabilities

Reverse repurchase agreements	75,229,719
Options written at value (premiums received \$380,000)	738,725
Unrealized depreciation on swaps	16,095,514
Investments purchased payable	6,424,739
Income dividends payable	926,285
Swaps payable	753,686
Investment advisory fees payable	204,523
Interest expense payable	31,086
Other affiliates payable	1,227
Swap premiums received	986
Officers and Directors' fees payable	784
Other accrued expenses payable	40,812
Total liabilities	100,448,086

Net Assets \$ 189,918,179

Net Assets Consist of

Paid-in capital	\$ 206,114,418
Distributions in excess of net investment income	(926,285)
Accumulated net realized loss	(2,036,328)
Net unrealized appreciation/depreciation	(13,233,626)

Net Assets \$ 189,918,179

Net Asset Value

Based on net assets of \$189,918,179 and 11,578,569 shares outstanding, 200 million shares authorized, \$0.10 par value

\$ 16.40

See Notes to Financial Statements.

10 BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010

Statement of Operations

Year Ended December 31, 2010

Investment Income

Interest	\$ 9,940,856
Income affiliated	8,357
Total income	9,949,213

Expenses

Investment advisory	1,991,195
Professional	56,169
Printing	54,495
Repurchase offer	46,783
Accounting services	38,923
Transfer agent	29,260
Officer and Directors	21,781
Custodian	19,231
Registration	9,330
Miscellaneous	49,850
Total expenses excluding interest expense	2,317,017
Interest expense	73,259
Total expenses	2,390,276
Less fees waived by advisor	(3,436)
Total expenses after fees waived	2,386,840
Net investment income	7,562,373

Realized and Unrealized Gain (Loss)

Net realized gain (loss) from:	
Investments	4,267,919
Financial futures contracts	4,049,073
Swaps	(5,371,085)
Options written	(2,135,590)
Foreign currency transactions	(67,850)
	742,467
Net change in unrealized appreciation/depreciation on:	
Investments	2,828,066
Financial futures contracts	2,008,533
Swaps	(2,861,590)
Options written	(1,034,775)
Foreign currency transactions	94
	940,328

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Total realized and unrealized gain	1,682,795
Net Increase in Net Assets Resulting from Operations	\$ 9,245,168

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010 11

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets:	Year Ended December 31,	
	2010	2009
Operations		
Net investment income	\$ 7,562,373	\$ 7,798,013
Net realized gain (loss)	742,467	(9,222,548)
Net change in unrealized appreciation/depreciation	940,328	24,727,118
Net increase in net assets resulting from operations	9,245,168	23,302,583
Dividends and Distributions to Shareholders From		
Net investment income	(9,384,900)	(3,097,770)
Net realized gain		(11,777,088)
Tax return of capital	(2,167,679)	(1,826,941)
Decrease in net assets resulting from dividends and distributions to shareholders	(11,552,579)	(16,701,799)
Capital Share Transactions		
Reinvestment of dividends and distributions	534,151	1,663,404
Net redemption of shares resulting from a repurchase offer (including \$56,745 and \$12,156 repurchase fees, respectively)	(2,780,508)	(595,623)
Net increase (decrease) in net assets derived from capital share transactions	(2,246,357)	1,067,781
Net Assets		
Total increase (decrease) in net assets	(4,553,768)	7,668,565
Beginning of year	194,471,947	186,803,382
End of year	\$ 189,918,179	\$ 194,471,947
		\$
Distributions in excess of net investment income	\$ (926,285)	(1,230,455)

See Notes to Financial Statements.

12 BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010

Statement of Cash Flows

Year Ended December 31, 2010

Cash Used for Operating Activities

Net increase in net assets resulting from operations	\$ 9,245,168
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:	
Increase in interest receivable	(261,629)
Increase in swaps receivable	(80,277)
Increase in margin variation receivable	(888)
Decrease in prepaid expenses	34,405
Increase in investment advisory fees payable	41,478
Increase in interest expense payable	30,430
Increase in other affiliates payable	255
Increase in other accrued expenses payable	10,228
Decrease in margin variation payable	(233,155)
Decrease in swaps payable	(20,528)
Increase in Officer's and Directors' fees payable	233
Net periodic and termination payments of swaps	(481,438)
Net realized and unrealized loss on investments and options	21,944
Amortization of premium and accretion of discount on investments	448,016
Premiums received from options written	4,176,297
Proceeds from sales and paydowns of long-term investments	414,104,266
Purchases of long-term investments	(458,553,240)
Net proceeds from sales of short-term securities	(11,430,624)
Premiums paid to close options written	(7,166,681)
Cash used for operating activities	(50,115,740)

Cash Provided by Financing Activities

Net redemption of shares resulting from a repurchase offer	(2,780,508)
Cash receipts from borrowings	506,926,525
Cash payments on borrowings	(442,630,634)
Cash dividends paid to Common Shareholders	(11,322,598)
Cash provided by financing activities	50,192,785

Cash Impact from Foreign Exchange Fluctuations

Cash impact from foreign exchange fluctuations	94
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Cash and Foreign Currency

Net increase in cash and foreign currency	77,139
Cash and foreign currency at beginning of year	
Cash and foreign currency at end of year	\$ 77,139

Cash Flow Information

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Cash paid for interest	\$ 42,829
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Noncash Financing Activities

Capital shares issued in reinvestment of dividends and distributions paid to shareholders	\$ 534,151
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A Statement of Cash Flows is presented when the Fund has a significant amount of borrowings during the year, based on the average borrowings outstanding in relation to total assets.

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. DECEMBER 31, 2010 13

Financial Highlights

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Per Share Operating Performance					
Net asset value, beginning of year	\$ 16.59	\$ 16.03	\$ 17.42	\$ 18.50	\$ 19.18