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BlackRock Enhanced Government Fund, Inc.
Form N-CSRS
September 03, 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: 12/31/2014

Date of reporting period: 06/30/2014

Item 1 – Report to Stockholders

JUNE 30, 2014

SEMI-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 tell you how to report these distributions for federal income tax purposes.

June 30, 2014

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 Com Shar
EGF \$0.216489		\$0.058511	\$0.275000	79%	0%	21%	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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Shareholder Letter

Dear Shareholder,

The latter half of 2013 was a strong period for equities and other risk assets such as high yield bonds, despite the mixed tone of economic and financial news and uncertainty as to when and by how much the U.S. Federal Reserve (the Fed) would begin to gradually reduce (or taper) its asset purchase programs. Stock markets rallied in September when the Fed defied investors' expectations with its decision to delay tapering. The momentum was soon disrupted, however, when political brinksmanship over decisions relating to the U.S. debt ceiling led to a partial government shutdown, roiling financial markets broadly until a compromise was struck in mid-October. The remainder of 2013 was generally positive for developed market stocks, while fixed income and emerging market investments struggled as Fed tapering became increasingly imminent. When the central bank ultimately announced its tapering plans in mid-December, equity investors reacted positively, as this action signaled the Fed's perception of real improvement in the economy.

Financial markets continued to move higher in the first half of 2014 despite the gradual pull back in Fed stimulus. The year got off to a rocky start, however. A number of emerging economies showed signs of stress due to currency weakness, debt problems and uneven growth rates, while facing the broader headwind of diminishing global liquidity. Heightened risks in emerging markets combined with disappointing U.S. economic data caused equities to decline in January while bond markets found renewed strength from investors seeking relatively safer assets.

Although these headwinds persisted, equities were back on the rise in February as investors were encouraged by a one-year extension of the U.S. debt ceiling and market-friendly comments from the new Fed Chairwoman, Janet Yellen. While it was clear that U.S. economic data had softened, investors were assuaged by increasing evidence that the trend was temporary and weather-related, and continued to take on risk given expectations that growth would pick up later in the year.

In the months that followed, interest rates trended lower and bond prices climbed higher in the modest growth environment. Financial markets exhibited a remarkably low level of volatility despite rising geopolitical risks and mixed global economic data. Tensions in Russia and Ukraine and signs of decelerating growth in China caused some turbulence, but markets were resilient as investors focused on better U.S. economic data, stronger corporate earnings and increased merger-and-acquisition activity. Additionally, investors were comforted by comments from the Fed offering reassurance that no changes to short-term interest rates were on the horizon. Equity investors shifted from growth to value stocks as the strong performance of growth stocks in 2013 had pushed valuations higher in many of these sectors. More broadly, the strongest performers of 2013 struggled most in 2014, and vice versa. Emerging markets particularly benefited from this rotation into cheaper valuations. For investors in these markets, technical factors overshadowed the risks and emerging market investments surged even as a military coup in Thailand was added to the growing list of geopolitical issues in May.

Escalating violence in Iraq pushed oil prices sharply higher in June, causing a brief dip in stock markets around the world as investors were reminded of the broader risk that instability in the Middle East and North Africa poses to global oil production, although oil prices retreated later in the month. Improving U.S. data and a steady stream of mergers and acquisitions again took center stage and equities quickly resumed their upward course. Additionally, global investors were encouraged by aggressive measures taken by the European Central Bank to combat the uncomfortably low level of inflation in the eurozone, while the Fed continued to maintain a dovish stance.

All told, the riskier asset classes strongly outperformed higher quality investments for the 12-month period ended June 30. Nonetheless, most fixed income assets performed surprisingly well in the first half of 2014 even as the Fed reduced its open-market bond purchases. U.S. large cap stocks were the strongest performers in both the six- and 12-month periods, while small cap stocks lagged in the last six months given higher valuations resulting from their strong performance in 2013. Short-term interest rates remained near zero, keeping yields on money market securities close to historic lows.

At BlackRock, we believe investors need to think globally, extend their scope across a broad 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

Asset prices pushed higher over the period despite modest global growth, geopolitical risks and a shift toward tighter U.S. monetary policy.

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of June 30, 2014

	6-month	12-month
U.S. large cap equities (S&P 500® Index)	7.14 %	24.61 %
U.S. small cap equities (Russell 2000® Index)	3.19	23.64
International equities (MSCI Europe, Australasia, Far East Index)	4.78	23.57
Emerging market equities (MSCI Emerging Markets Index)	6.14	14.31
3-month Treasury bill (BofA Merrill Lynch 3-Month U.S. Treasury Bill Index)	0.02	0.05
U.S. Treasury securities (BofA Merrill Lynch 10-Year U.S. Treasury Index)	6.13	2.84
U.S. investment grade bonds (Barclays U.S. Aggregate Bond Index)	3.93	4.37
Tax-exempt municipal bonds (S&P Municipal Bond Index)	6.07	6.08
U.S. high yield bonds (Barclays U.S. Corporate High Yield 2% Issuer Capped Index)	5.46	11.72

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

4 THIS PAGE NOT PART OF YOUR FUND REPORT

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 U.S. Government and U.S. 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 U.S. Government and U.S. 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.

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Fund Summary as of June 30, 2014

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 U.S. Government securities and U.S. Government Agency securities, including U.S. Government mortgage-backed securities that pay interest in an attempt to generate current income, and by employing a strategy of writing (selling) call options on individual or baskets of U.S. Government securities, U.S. Government Agency securities or other debt securities held by the Fund in an attempt to generate gains from option premiums.

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

Portfolio Management Commentary

How did the Fund perform?

For the six-month period ended June 30, 2014, the Fund returned 4.44% based on market price and 2.49% based on net asset value (NAV). For the same period, the BofA Merrill Lynch 1-3 Year U.S. Treasury Index returned 0.41% and the Citigroup Government/Mortgage Index posted a return of 3.17%. All returns reflect reinvestment of dividends. The Fund's discount to NAV, which narrowed 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 U.S. 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 allocations to agency mortgage-backed securities (MBS) and U.S. Treasuries were the leading contributors to performance during the period. Agency MBS benefited from strong demand given the gradually improving housing market and investors' continued search for yield amid lower volatility in U.S. interest rates. U.S. Treasuries rallied amid strong demand for U.S. government debt from foreign investors seeking higher yielding sovereign debt and relatively safer assets given rising geopolitical risk in Eastern Europe as well as the Middle East.

The Fund also benefited from its allocation to corporate credit, which experienced further tightening in spreads driven by favorable market fundamentals, as well as commercial mortgage-backed securities (CMBS), which performed well against the generally benign backdrop in the commercial real estate market.

The Fund used interest rate swaps to manage against long U.S. Treasury positions and as a means to manage duration (sensitivity to interest rate movements), spread exposure and yield curve positioning. During the period, the use of swaps was the largest detractor from performance, as spreads on 10-year and 30-year swaps tightened along with the rally in U.S. interest rates. The use of swaps continues to be an efficient interest rate management tool and should be viewed in the context of their overall contribution to risk reduction as well as performance.

Describe recent portfolio activity.

The Fund tactically managed yield curve positioning throughout the period, while maintaining a flattening bias in the short end of the curve. The Fund purchased U.S. Treasury securities and wrote call options to generate incremental yield.

Describe portfolio positioning at period end.

The Fund's option-writing strategy has the effect of reducing overall portfolio duration, which stood at 2.24 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 securities with U.S. Treasuries and agency MBS being the two largest sector allocations. The Fund also maintained limited exposure to a diversified basket of non-government spread sectors, including CMBS, asset-backed securities, 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 June 30, 2014 (\$14.29) ¹	4.62%
Current Monthly Distribution per Common Share ²	\$0.055
Current Annualized Distribution per Common Share ²	\$0.660
Economic Leverage as of June 30, 2014 ³	30%

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 Section 19(a) Notice on page 2 for the estimated 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

	6/30/14	12/31/13	Change	High	Low
Market Price	\$14.29	\$13.95	2.44%	\$14.40	\$13.81
Net Asset Value	\$15.21	\$15.13	0.53%	\$15.27	\$15.09

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

Portfolio Composition	6/30/14	12/31/13
U.S. Government Sponsored Agency Securities	51%	58%
U.S. Treasury Obligations	42	35
Preferred Securities	2	2
Asset-Backed Securities	2	2
Corporate Bonds	2	2
Non-Agency Mortgage-Backed Securities	1	1

Credit Quality Allocation⁴	6/30/14	12/31/13
AAA/Aaa ⁵	93%	95%
AA/Aa	1	1
BBB/Baa	3	3
BB/Ba	3	1

⁴For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either Standard & Poor's (S&P) or Moody's Investors Service (Moody's) if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used.

Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

The investment advisor evaluates the credit quality of not-rated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors, individual investments and/or issuer. Using this approach, the investment advisor has deemed U.S. Government Sponsored Agency Securities and U.S. Treasury Obligations as AAA/Aaa.

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The Benefits and Risks of Leveraging

The Fund may utilize leverage to seek to enhance the yield and net asset value (NAV) of its common shares (Common Shares). However, these objectives cannot be achieved in all interest rate environments.

In general, the concept of leveraging is based on the premise that the financing cost of 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 purchased with the proceeds from leverage. 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.

To illustrate these concepts, assume the Fund's capitalization is \$100 million and it utilizes leverage for an additional \$30 million, creating a total value of \$130 million available for investment in longer-term income securities. If prevailing short-term interest rates are 3% and longer-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, the Fund's financing costs on the \$30 million of proceeds obtained from leverage are based on the lower short-term interest rates. At the same time, the securities purchased by the Fund with the proceeds from leverage earn income based on longer-term interest rates. In this case, the Fund's financing cost of leverage is significantly lower than the income earned on the Fund's longer-term investments acquired from such leverage proceeds, and therefore the holders of Common Shares (Common Shareholders) are the beneficiaries of the incremental net income.

However, in order to benefit shareholders, the return on assets purchased with leverage proceeds must exceed the ongoing costs associated with the leverage. If interest and other costs of leverage exceed the Fund's return on assets purchased with leverage proceeds, income to shareholders will be lower than if the Fund had not used leverage. 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 value of the Fund's obligations under its leverage arrangement generally does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Fund's NAVs positively or negatively. Changes in the future direction of interest rates are very difficult to predict accurately, and there is no assurance that the Fund's intended leveraging strategy will be successful.

Leverage also will generally cause greater changes in the Fund's NAV, market price and dividend rate than comparable portfolios without leverage. In a declining market, leverage is likely to cause a greater decline in the net asset value and market price of a Fund's shares than if the Fund were not leveraged. In addition, 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 to the shares.

The Fund may utilize leverage through reverse repurchase agreements as described in the Notes to Financial Statements.

Under the Investment Company Act of 1940, as amended (the 1940 Act), the Fund is permitted to issue debt up to ~~33~~³⁹% of its total managed assets. The Fund may voluntarily elect to limit its leverage to less than the maximum amount permitted under the 1940 Act.

If the Fund segregates or designates on its books and records cash or liquid assets having values not less than the value of the Fund's obligations under the reverse repurchase agreement (including accrued interest), then such transaction will not be considered a senior security and will not be subject to the foregoing limitations and requirements under the 1940 Act.

Derivative Financial Instruments

The Fund may invest in various derivative financial instruments, including financial futures contracts, options, swaps and forward 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

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

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Schedule of Investments June 30, 2014 (Unaudited)

(Percentages shown are based on Net Assets)

Asset-Backed Securities	Par (000)	Value
First Franklin Mortgage Loan Trust, Series 2005-FF2, Class M2, 0.81%, 3/25/35 (a)	\$ 1,001	\$ 999,882
Motor 2012 PLC, Series 12A, Class A1C, 1.29%, 2/25/20 (b)	134	134,504
Securitized Asset Backed Receivables LLC Trust (a):		
Series 2005-OP1, Class M2, 0.83%, 1/25/35	1,581	1,425,740
Series 2005-OP2, Class M1, 0.58%, 10/25/35	1,025	885,928
Total Asset-Backed Securities 2.5%		3,446,054
Corporate Bonds		
Diversified Telecommunication Services 2.3%		
Verizon Communications, Inc., 2.50%, 9/15/16	3,000	3,092,229
Energy Equipment & Services 0.3%		
Transocean, Inc.:		
4.95%, 11/15/15	295	311,037
5.05%, 12/15/16	50	54,316
6.00%, 3/15/18	60	67,772
		433,125
Total Corporate Bonds 2.6%		3,525,354
Non-Agency Mortgage-Backed Securities		
Collateralized Mortgage Obligations 1.0%		
Bank of America Mortgage Securities, Inc., Series 2003-J, Class 2A1, 2.85%, 11/25/33 (a)	161	162,290
Bear Stearns Alt-A Trust, Series 2004-13, Class A1, 0.89%, 11/25/34 (a)	232	231,946
Homebanc Mortgage Trust, Series 2005-4, Class A1, 0.42%, 10/25/35 (a)	1,214	1,087,791
		1,482,027
Interest Only Collateralized Mortgage Obligations 0.1%		
CitiMortgage Alternative Loan Trust, Series 2007-A5, Class 1A7, 6.00%, 5/25/37	330	82,471
Total Non-Agency Mortgage-Backed Securities 1.1%		1,564,498
U.S. Government Sponsored Agency Securities		
Agency Obligations 3.0%		
Federal Farm Credit Bank, 4.55%, 6/08/20	3,500	3,997,542
Collateralized Mortgage Obligations 8.1%		
Ginnie Mae Mortgage-Backed Securities, Class C (a):		
Series 2005-87, 4.96%, 9/16/34	174	174,214
Series 2006-3, 5.24%, 4/16/39	10,000	10,830,970

		11,005,184
U.S. Government Sponsored Agency Securities	Par (000)	Value
Interest Only Collateralized Mortgage Obligations 2.3%		
Fannie Mae Mortgage-Backed Securities:		
Series 2012-47, Class NI, 4.50%, 4/25/42	\$ 2,260	\$ 404,946
Series 2012-96, Class DI, 4.00%, 2/25/27	2,746	309,683
Series 2012-M9, Class X1, 4.23%, 12/25/17 (a)	5,494	626,989
Ginnie Mae Mortgage-Backed Securities (a):		
Series 2006-30, Class IO, 0.70%, 5/16/46	1,414	78,795
Series 2009-78, Class SD, 6.05%, 9/20/32	2,314	427,515
Series 2009-116, Class KS, 6.32%, 12/16/39	948	132,387
Series 2011-52, Class NS, 6.52%, 4/16/41	6,266	1,189,891
		3,170,206
Mortgage-Backed Securities 57.8%		
Fannie Mae Mortgage-Backed Securities:		
2.50%, 4/01/28	8,065	8,203,420
3.00%, 6/01/42 4/01/43	8,427	8,344,636
3.50%, 8/01/26 6/01/42	13,123	13,770,963
4.00%, 4/01/24 2/01/41	17,498	18,623,512
4.50%, 4/01/39 8/01/40	11,548	12,612,807
5.00%, 11/01/33 2/01/40	6,979	7,803,122
5.50%, 10/01/23 7/01/44 (c)	6,471	7,261,295
6.00%, 2/01/36 3/01/38	1,267	1,428,464
Freddie Mac Mortgage-Backed Securities, 4.50%, 5/01/34	276	298,485
Ginnie Mae Mortgage-Backed Securities, 5.00%, 11/15/35	12	13,472
		78,360,176
Total U.S. Government Sponsored Agency Securities 71.2%		96,533,108
U.S. Treasury Obligations		
U.S. Treasury Bonds:		
6.63%, 2/15/27	2,000	2,836,250
5.38%, 2/15/31	2,000	2,625,938
3.88%, 8/15/40 (d)	12,000	13,312,500
4.38%, 5/15/41 (d)	10,000	12,021,880
3.75%, 8/15/41 (d)	10,000	10,862,500
3.38%, 5/15/44	3,000	3,020,157
U.S. Treasury Notes:		
0.38%, 11/15/15 (d)	5,900	5,913,369
0.75%, 6/30/17 (d)	4,000	3,983,752
0.50%, 7/31/17	2,700	2,664,352
1.38%, 6/30/18	3,000	3,006,798
1.63%, 4/30/19	5,000	5,009,375
3.13%, 5/15/21 (d)	10,000	10,675,780
1.75%, 5/15/22 (d)	2,000	1,925,156
Total U.S. Treasury Obligations 57.5%		77,857,807

Portfolio Abbreviations

LIBOR London Interbank Offer Rate

OTC Over-the-Counter

TBA To Be Announced

USD U.S. Dollar

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 9

Schedule of Investments (continued)

(Percentages shown are based on Net Assets)

Preferred Securities	Par (000)	Value
Capital Trusts		
Diversified Financial Services 0.4%		
ZFS Finance (USA) Trust V, 6.50%, 5/09/67 (a)(b)	\$ 504	\$ 539,280
Electric Utilities 1.5%		
PPL Capital Funding, Inc., 6.70%, 3/30/67 (a)	2,000	2,040,000
Total Capital Trusts 1.9%		2,579,280
<hr/>		
Trust Preferred 1.5%	Shares	
Capital Markets 1.5%		
Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67	80,000	1,990,367
Total Preferred Securities 3.4%		4,569,647
Total Long-Term Investments (Cost \$181,911,698) 138.3%		187,496,468
<hr/>		
Short-Term Securities		
BlackRock Liquidity Funds, TempFund, Institutional Class, 0.03% (e)(f)	5,270,263	5,270,263
Total Short-Term Securities (Cost \$5,270,263) 3.9%		5,270,263
Total Investments Before TBA Sale Commitments and Options Written (Cost \$187,181,961) 142.2%		192,766,731
TBA Sale Commitments (c)	Par (000)	Value
Fannie Mae Mortgage-Backed Securities, TBA, 5.50%, 7/01/44	\$ 6,100	\$ (6,829,345)
Total TBA Sale Commitments (Proceeds \$6,785,535) (5.0)%		(6,829,345)
<hr/>		
Options Written		
(Premiums Received \$440,000) (0.4)%		(477,016)
Total Investments, Net of TBA Sale Commitments and Options Written (Cost \$179,956,426) 136.8%		185,460,370
Liabilities in Excess of Other Assets (36.8)%		(49,960,239)
Net Assets 100.0%		\$135,500,131

Notes to Schedule of Investments

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

(b)

Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration to qualified institutional investors.

- (c) Represents or includes a TBA transaction. Unsettled TBA transactions as of June 30, 2014 were as follows:

Counterparty	Value	Unrealized Appreciation (Depreciation)
Citigroup Global Markets, Inc.	\$ 223,913	\$ 1,257
Deutsche Bank Securities, Inc.	\$(6,829,345)	\$(43,810)

- (d) All or a portion of security has been pledged as collateral in connection with outstanding reverse repurchase agreements.
- (e) Investments in issuers considered to be an affiliate of the Fund during the six months ended June 30, 2014, for purposes of Section 2(a)(3) of the 1940 Act, as amended, were as follows:

Affiliate	Shares Held at December 31, 2013	Net Activity	Shares Held at June 30, 2014	Income
BlackRock Liquidity Funds, TempFund, Institutional Class	3,984,792	1,285,471	5,270,263	\$661

- (f) Represents the current yield as of report date.
See Notes to Financial Statements.

10BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014

Schedule of Investments (continued)

Reverse repurchase agreements outstanding as of June 30, 2014 were as follows:

Counterparty	Interest Rate	Maturity Date ¹	Face Value	Face Value Including Accrued Interest
Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.13%	4/25/13	\$ 2,047,500	\$2,049,127
Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.09%	4/25/13	11,500,000	11,507,801
Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.12%	9/18/13	5,892,625	5,893,919
Credit Suisse Securities (USA) LLC	0.16%	3/03/14	10,400,000	10,402,848
Credit Suisse Securities (USA) LLC	0.16%	3/03/14	12,765,000	12,768,496
Deutsche Bank Securities, Inc.	0.09%	4/16/14	4,000,000	4,000,599
Credit Suisse Securities (USA) LLC	0.16%	5/20/14	11,950,000	11,950,837
Total			\$58,555,125	\$58,573,62

¹ Certain agreements have no stated maturity and can be terminated by either party at any time.

Financial futures contracts outstanding as of June 30, 2014 were as follows:

Contracts Sold	Issue	Exchange	Expiration	Notional Value	Unrealized Depreciation
(20)	Ultra Long U.S. Treasury Bond	Chicago Board of Trade	September 2014	\$2,998,750	\$(48,773)

OTC interest rate swaptions written as of June 30, 2014 were as follows:

Description	Counterparty	Put/Call	Pay/Receive		Floating Rate Index	Expiration Date	Notional Amount (000)	Market Value
			Exercise Rate	Exercise Rate				
2-Year Interest Rate Swap	Credit Suisse Securities (USA) LLC	Call	0.64%	Pay	3-Month LIBOR	7/29/14	\$37,500	\$(33,382)
5-Year Interest Rate Swap	Credit Suisse Securities (USA) LLC	Call	1.76%	Pay	3-Month LIBOR	7/29/14	37,500	(140,134)
10-Year Interest Rate Swap	Credit Suisse	Call	2.66%	Pay	3-Month LIBOR	7/29/14	22,500	(152,980)

30-Year Interest Rate Swap	Securities (USA) LLC	Call	3.33%	Pay	3-Month 7/29/14 LIBOR	11,300	(150,520)
	Credit Suisse Securities (USA) LLC						

\$(477,016)

Centrally cleared interest rate swaps outstanding as of June 30, 2014 were as follows:

Fixed Rate	Floating Rate	Clearinghouse	Expiration Date	Notional Amount (000)	Unrealized Appreciation
2.29% ²	3-Month LIBOR	Chicago Mercantile	5/30/23	\$ 880	\$13,882

OTC interest rate swaps outstanding as of June 30, 2014 were as follows:

Fixed Rate	Floating Rate	Counterparty	Expiration Date	Notional Amount (000)	Market Value	Unrealized Depreciation
5.96% ²	3-Month LIBOR	Deutsche Bank AG	12/27/37	\$23,900	\$(11,211,721)	\$(11,211,721)

² The Fund pays the fixed rate and receives the floating rate.

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the Fund has the ability to access

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 (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 derivative financial instruments)

See Notes to Financial Statements.

Schedule of Investments (concluded)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Fund's policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. For information about the Fund's policy regarding valuation of investments and derivative financial instruments, please refer to Note 2 of the Notes to Financial Statements.

The following tables summarize the Fund's investments and derivative financial instruments categorized in the disclosure hierarchy as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Long-Term Investments:				
Asset-Backed Securities		\$ 3,446,054		\$ 3,446,054
Corporate Bonds		3,525,354		3,525,354
Non-Agency Mortgage-Backed Securities		1,564,498		1,564,498
U.S. Government Sponsored Agency Securities		96,533,108		96,533,108
U.S. Treasury Obligations		77,857,807		77,857,807
Preferred Securities	\$ 1,990,367	2,579,280		4,569,647
Short-Term Securities	5,270,263			5,270,263
Liabilities:				

Investments:

TBA Sale Commitments		(6,829,345)	(6,829,345)
Total	\$ 7,260,630	\$178,676,756	\$185,937,386

	Level 1	Level 2	Level 3	Total
Derivative Financial Instruments ¹				
Assets:				
Interest rate contracts		\$ 13,882		\$ 13,882
Liabilities:				
Interest rate contracts	\$ (48,773)	(11,688,737)		(11,737,510)
Total	\$ (48,773)	\$ (11,674,855)		\$ (11,723,628)

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

The Fund may hold assets and/or liabilities in which the fair value approximates the carrying amount for financial statement purposes. As of June 30, 2014, such assets and/or liabilities are categorized within the disclosure hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash pledged for centrally cleared swaps	\$ 35,000			\$ 35,000
Cash pledged as collateral for OTC derivatives	11,340,000			11,340,000
Cash pledged as collateral for reverse repurchase agreements	1,075,000			1,075,000
Cash pledged for financial futures contracts	60,000			60,000
Foreign currency at value	365			365
Liabilities:				
Reverse repurchase agreements		\$ (58,573,627)		(58,573,627)
Total	\$12,510,365	\$ (58,573,627)		\$ (46,063,262)

As of December 31, 2013, the Fund used other observable inputs in determining the value of certain securities. As of June 30, 2014, the Fund valued the same securities using unadjusted price quotations from an exchange. As a result, investments with a beginning of period value of \$1,906,500 transferred from Level 2 to Level 1 in the disclosure hierarchy.

See Notes to Financial Statements.

12BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014

Statement of Assets and Liabilities

June 30, 2014 (Unaudited)**Assets**

Investments at value unaffiliated (cost \$181,911,698)	\$187,496,468
Investments at value affiliated (cost \$5,270,263)	5,270,263
Foreign currency at value (cost \$345)	365
Cash pledged as collateral for OTC derivatives	11,340,000
Cash pledged as collateral for reverse repurchase agreements	1,075,000
Cash pledged for financial futures contracts	60,000
Cash pledged for centrally cleared swaps	35,000
TBA sale commitments receivable	6,785,535
Interest receivable	1,008,700
Swaps receivable	14,935
Prepaid expenses	7,003
Total assets	213,093,269

Liabilities

Reverse repurchase agreements	58,573,627
Unrealized depreciation on OTC swaps	11,211,721
TBA sale commitments at value (proceeds \$6,785,535)	6,829,345
Options written at value (premiums received \$440,000)	477,016
Investments purchased payable	223,053
Investment advisory fees payable	107,528
Swaps payable	38,044
Income dividends payable	17,958
Variation margin payable on financial futures contracts	13,125
Officers and Directors fees payable	4,312
Variation margin payable on centrally cleared swaps	1,731
Other accrued expenses payable	95,678
Total liabilities	77,593,138
Net Assets	\$135,500,131

Net Assets Consist of

Paid-in capital	\$151,611,397
Distributions in excess of net investment income	(774,874)
Accumulated net realized loss	(9,593,744)
Net unrealized appreciation/depreciation	(5,742,648)
Net Assets	\$135,500,131

Net Asset Value

Based on net assets of \$135,500,131 and 8,909,710, shares outstanding, 200 million shares authorized, \$0.10 par value	\$ 15.21
See Notes to Financial Statements.	

Statement of Operations

Six Months Ended June 30, 2014 (Unaudited)**Investment Income**

Interest	\$ 3,001,180
Income affiliated	661
Total income	3,001,841

Expenses

Investment advisory	797,930
Professional	34,103
Transfer agent	21,063
Accounting services	12,704
Repurchase offer	10,930
Custodian	10,801
Printing	9,926
Officer and Directors	6,168
Registration	4,605
Miscellaneous	19,931
Total expenses excluding interest expense	928,161
Interest expense	15,518
Total expenses	943,679
Less fees waived by Manager	(107,064)
Less fees paid indirectly	(104)
Total expenses after fees waived and paid indirectly	836,511
Net investment income	2,165,330

Realized and Unrealized Gain (Loss)

Net realized gain (loss) from:	
Investments	(141,055)
Financial futures contracts	(24,587)
Foreign currency transactions	(711)
Options written	(1,370,184)
Swaps	(712,573)
	(2,249,110)
Net change in unrealized appreciation/depreciation on:	
Investments	6,544,139
Financial futures contracts	(44,239)
Foreign currency translations	410
Options written	(163,894)
Swaps	(3,129,343)
	3,207,073
Total realized and unrealized gain	957,963
Net Increase in Net Assets Resulting from Operations	\$ 3,123,293

See Notes to Financial Statements.

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Statements of Changes in Net Assets

Increase (Decrease) in Net Assets:	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Operations		
Net investment income	\$ 2,165,330	\$ 4,571,883
Net realized loss	(2,249,110)	(408,613)
Net change in unrealized appreciation/depreciation	3,207,073	(6,610,592)
Net increase (decrease) in net assets resulting from operations	3,123,293	(2,447,322)
Dividends and Distributions to Shareholders From		
Net investment income	(2,450,170) ¹	(3,578,331) ²
Return of capital		(3,836,527) ²
Decrease in net assets resulting from dividends and distributions to shareholders	(2,450,170)	(7,414,858)
Capital Share Transactions		
Redemption of shares resulting from a repurchase offer		(14,775,653) ³
Net Assets		
Total increase (decrease) in net assets	673,123	(24,637,833)
Beginning of period	134,827,008	159,464,841
End of period	\$ 135,500,131	\$ 134,827,008
Distributions in excess of net investment income, end of period	\$ (774,874)	\$ (490,034)

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

² Determined in accordance with federal income tax regulations.

³ Net of repurchase fees of \$301,544.

See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 15

Statement of Cash Flows

Six Months Ended June 30, 2014**Cash Used for Operating Activities**

Net increase in net assets resulting from operations	\$ 3,123,293
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:	
Decrease in interest receivable	15,317
Increase in swaps receivable	(13,956)
Increase in prepaid expenses	(1,371)
Decrease in variation margin receivable on centrally cleared swaps	2,897
Increase in cash pledged for financial futures contracts	(56,000)
Increase in cash pledged as collateral for OTC derivatives	(3,350,000)
Decrease in investment advisory fees payable	(11,365)
Increase in interest expense payable	1,664
Decrease in other accrued expenses payable	(3,354)
Increase in swaps payable	14,313
Increase in variation margin payable on financial futures contracts	12,781
Increase in variation margin payable on centrally cleared swaps	1,731
Decrease in Officers and Directors fees payable	(251)
Net realized loss on investments	1,511,239
Net unrealized gain on investments	(3,289,577)
Amortization of premium and accretion of discount on investments	733,084
Premiums received from options written	3,148,916
Proceeds from sales and principal paydowns of long-term investments	77,911,007
Purchases of long-term investments	(77,894,354)
Net payments for purchases of short-term securities	(1,285,471)
Premiums paid on closing options written	(4,079,100)
Cash used for operating activities	(3,508,557)

Cash Provided by Financing Activities

Cash dividends paid to Common Shareholders	(2,922,246)
Net borrowing of reverse repurchase agreements	6,430,000
Cash provided by financing activities	3,507,754

Cash Impact from Foreign Exchange Fluctuations

Cash impact from foreign exchange fluctuations	(3)
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Cash and Foreign Currency

Net decrease in cash	(806)
Cash and foreign currency at beginning of period	1,171
Cash and foreign currency at end of period	\$ 365

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for interest	\$ 13,854
See Notes to Financial Statements.	

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Financial Highlights

	Year Ended December 31,					
	Six Months Ended June 30, 2014 (Unaudited)	2013	2012	2011	2010	2009
Per Share Operating Performance						
Net asset value, beginning of period	\$ 15.13	\$ 16.11	\$ 16.25	\$ 16.40	\$ 16.59	\$ 16.78
Net investment income ¹	0.24	0.47	0.67	0.70	0.64	0.58
Net realized and unrealized gain (loss)	0.12	(0.69) ²	0.02 ²	0.07 ²	0.16 ²	0.11
Net increase (decrease) from investment operations	0.36	(0.22)	0.69	0.77	0.80	0.69
Dividends and distributions from:						
Net investment income	(0.28) ³	(0.37) ⁴	(0.55) ⁴	(0.39) ⁴	(0.80) ⁴	(0.72)
Net realized gain						
Return of capital		(0.39) ⁴	(0.28) ⁴	(0.53) ⁴	(0.19) ⁴	(0.11)
Total dividends and distributions	(0.28)	(0.76)	(0.83)	(0.92)	(0.99)	(0.83)
Net asset value, end of period	\$ 15.21	\$ 15.13	\$ 16.11	\$ 16.25	\$ 16.40	\$ 16.78
Market price, end of period	\$ 14.29	\$ 13.95	\$ 15.63	\$ 15.25	\$ 15.51	\$ 17.00
Total Investment Return⁵	2.49%⁶	(1.06)%	4.59%	5.15%	4.95%	12.6%

Based on
net asset
value
Based on
market price

4.44%⁶ (5.98)% 8.13% 4.34% (3.54)% 12.1%

Ratio to Average Net Assets

Total expenses	1.41% ⁷	1.32%	1.43%	1.39%	1.22%	1.0%
Total expenses after fees waived and paid indirectly	1.25% ⁷	1.25%	1.42%	1.39%	1.22%	0.9%
Total expenses after fees waived and paid indirectly and excluding interest expense	1.22% ⁷	1.20%	1.35%	1.35%	1.18%	0.9%
Net investment income	3.23% ⁷	2.98%	4.15%	4.32%	3.87%	3.9%

Supplemental Data

Net assets, end of period (000)	\$ 135,500	\$ 134,827	\$ 159,465	\$ 178,765	\$ 189,918	\$ 194,400
Borrowings outstanding, end of period (000)	\$ 58,574	\$ 52,142	\$ 66,410	\$ 90,460	\$ 75,230	\$ 10,900
Average borrowings outstanding, during the period (000)	54,097	\$ 49,835	\$ 68,515	\$ 71,183	\$ 40,046	\$ 3,400
Portfolio turnover ⁸	44%	111%	142%	115%	163%	48%
Asset coverage, end of period per \$1,000	\$ 3,313	\$ 3,586	\$ 3,401	\$ 2,976	\$ 3,525	\$ 18,700

¹ Based on average shares outstanding.

²

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Net realized and unrealized gain (loss) per share amounts include repurchase fees of \$0.03, \$0.03, \$0.02, \$0.00 and \$0.00 for the periods ended December 31, 2013 through December 31, 2009, respectively.

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

⁴ Determined in accordance with federal income tax regulations.

⁵ Total investment returns based on market price, which can be significantly greater or less than the net asset value, may result in substantially different returns. Where applicable, excludes the effects of any sales charges and assumes the reinvestment of dividends and distributions.

⁶ Aggregate total investment return.

⁷ Annualized.

⁸ Includes mortgage dollar roll transactions. Additional information regarding portfolio turnover is as follows:

Portfolio turnover (excluding mortgage dollar roll transactions)	21%	57%	83%	98%	137%	174%
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See Notes to Financial Statements.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 17

Notes to Financial Statements (Unaudited)

1. Organization:

BlackRock Enhanced Government Fund, Inc. (the Fund) is registered under the 1940 Act, as a diversified, closed-end management investment company. The Fund is organized as a Maryland corporation. The Fund determines and makes available for publication its NAV on a daily basis.

2. Significant Accounting Policies:

The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. The Fund is considered an investment company under U.S. GAAP and follows the accounting and reporting guidance applicable to investment companies. The following is a summary of significant accounting policies followed by the Fund:

Valuation: U.S. GAAP defines fair value as the price the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund determines the fair values of its financial instruments at market value using independent dealers or pricing services under policies approved by the Board of Directors of the Fund (the Board). The BlackRock Global Valuation Methodologies Committee (the Global Valuation Committee) is the committee formed by management to develop global pricing policies and procedures and to provide oversight of the pricing function for the Fund for all financial instruments.

Bond investments are valued on the basis of last available bid prices or current market quotations provided by dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments, various relationships observed in the market between investments and calculated yield measures. Asset-backed and mortgage-backed securities are valued by independent pricing services using models that consider estimated cash flows of each tranche of the security, establish a benchmark yield and develop an estimated tranche-specific spread to the benchmark yield based on the unique attributes of the tranche. Financial futures contracts traded on exchanges are valued at their last sale price. To-be-announced (TBA) commitments are valued on the basis of last available bid prices or current market quotations provided by pricing services. Swap agreements are valued utilizing quotes received daily by the Fund's pricing service or through brokers, which are derived using daily swap curves and models that incorporate a number of market data factors, such as discounted cash flows, trades and values of the underlying reference instruments. Certain centrally cleared swaps are valued at the price determined by the relevant exchange or clearinghouse. Investments in open-end registered investment companies are valued at NAV each business day. Short-term securities with remaining maturities of 60 days or less may be valued at amortized cost, which approximates fair value.

Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates determined as of the close of business on the New York Stock Exchange (NYSE). Foreign currency exchange contracts are valued at the mean between the bid and ask prices and are determined as of the close of business on the NYSE. Interpolated values are derived when the settlement date of the contract is an interim date for which quotations are not available.

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

In the event that the application of these methods of valuation results in a price for an investment that is deemed not to be representative of the market value of such investment, or if a price is not available, the investment will be valued by the Global Valuation Committee, or its delegate, in accordance with a policy approved by the Board as reflecting fair value (Fair Value Assets). When determining the price for Fair Value Assets, the Global Valuation Committee, or its delegate, seeks to determine the price that the Fund might reasonably expect to receive from the current sale of that asset in an arm's-length transaction. Fair value determinations shall be based upon all available factors that the Global Valuation Committee, or its delegate, deems relevant consistent with the principles of fair value measurement. The pricing of all Fair Value Assets is subsequently reported to the Board or a committee thereof on a quarterly basis.

Notes to Financial Statements (continued)

Generally, trading in foreign instruments is substantially completed each day at various times prior to the close of business on the NYSE. Occasionally, events affecting the values of such instruments may occur between the foreign market close and the close of business on the NYSE that may not be reflected in the computation of the Fund's net assets. If events (e.g., a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such instruments, those instruments may be Fair Value Assets and be valued at their fair value, as determined in good faith by the Global Valuation Committee using a pricing service and/or policies approved by the Board.

Foreign Currency: The Fund's books and records are maintained in U.S. dollars. Purchases and sales of investment securities are recorded at the rates of exchange prevailing on the respective date of such transactions. Generally, when the U.S. dollar rises in value against a foreign currency, the Fund's investments denominated in that currency will lose value because that currency is worth fewer U.S. dollars; the opposite effect occurs if the U.S. dollar falls in relative value.

The Fund does not isolate the portion of the results of operations arising as a result of changes in the foreign exchange rates from the changes in the market prices of investments held or sold for financial reporting purposes. Accordingly, the effects of changes in foreign currency exchange rates on investments are not segregated in the Statement of Operations from the effects of changes in market prices of those investments but are included as a component of net realized and unrealized gain (loss) from investments. The Fund reports realized currency gains (losses) on foreign currency related transactions as components of net realized gain (loss) for financial reporting purposes, whereas such components may be treated as ordinary income for federal income tax purposes.

Segregation and Collateralization: In cases where the Fund enters into certain investments (e.g., dollar rolls, TBA sale commitments, financial futures contracts, options written or swaps) or certain borrowings (e.g., reverse repurchase transactions) that would be senior securities for 1940 Act purposes, the Fund may segregate or designate on its books and records cash or liquid securities having a market value at least equal to the amount of the Fund's future obligations under such investments or borrowings. Doing so allows the investment or borrowing to be excluded from treatment as a senior security. Furthermore, if required by an exchange or counterparty agreement, the Fund may be required to deliver/deposit cash and/or securities to/with an exchange, or broker-dealer or custodian as collateral for certain investments or obligations.

Investment Transactions and Investment Income: For financial reporting purposes, investment transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on investment transactions are determined on the identified cost basis. Interest income, including amortization and accretion of premiums and discounts on debt securities, is recognized on the accrual basis. Interest income, including amortization and accretion of premiums and discounts on debt securities, is recognized on the accrual basis.

Dividends and Distributions: Dividends and distributions paid by the Fund are recorded on the ex-dividend date. Subject to the Fund's level distribution plan, the Fund intends to make monthly cash dividends and/or distributions to shareholders, which may consist of net investment income, net options premium and net realized and unrealized gains on investments and/or return of capital.

Portions of return of capital distributions under U.S. GAAP may be taxed at ordinary income rates.

The character of dividends and distributions is determined in accordance with federal income tax regulations, which may differ from U.S. GAAP. The portion of distributions that exceeds the Fund's current and accumulated earnings and profits, which are measured on a tax basis, will constitute a non-taxable return of capital. Realized net capital gains can be offset by capital losses carried forward from prior years. However, the Fund may have capital loss carryforwards from pre-2012 tax years that offset realized net capital gains but do not offset current and accumulated earnings and profits. Consequently, if distributions in any tax year are less than the Fund's current earnings and profits but greater than net investment income and net realized capital gains (taxable income), distributions in excess of taxable income are not treated as non-taxable return of capital, but rather may be taxable to shareholders at ordinary income rates. Under certain circumstances, taxable excess distributions could be significant.

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

Notes to Financial Statements (continued)

The Plan is not funded and obligations thereunder represent general unsecured claims against the general assets of each Fund. Deferred compensation liabilities are included in officer's and directors' fees payable in the Statement of Assets and Liabilities and will remain as a liability of the Fund until such amounts are distributed in accordance with the Plan.

Recent Accounting Standard: In June 2014, the Financial Accounting Standards Board issued guidance to improve the financial reporting of reverse repurchase agreements and other similar transactions. The guidance includes expanded disclosure requirements for entities that enter into reverse repurchase agreements and similar transactions accounted for as secured borrowings. The guidance is effective for financial statements with fiscal years beginning on or after December 15, 2014 and interim periods within those fiscal years. Management is evaluating the impact, if any, of this guidance on the Fund's financial statement disclosures.

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

The Fund has an arrangement with the custodian whereby fees may be reduced by credits earned on uninvested cash balances, which, if applicable, are shown as fees paid indirectly in the Statement of Operations. The custodian imposes fees on overdrawn cash balances, which can be offset by accumulated credits earned or may result in additional custody charges.

3. Securities and Other Investments:

Asset-Backed and Mortgage-Backed Securities: The Fund may invest in asset-backed securities. Asset-backed securities are generally issued as pass-through certificates, which represent undivided fractional ownership interests in an underlying pool of assets, or as debt instruments, which are also known as collateralized obligations, and are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. The yield characteristics of certain asset-backed securities may differ from traditional debt securities. One such major difference is that all or a principal part of the obligations may be prepaid at any time because the underlying assets (i.e., loans) may be prepaid at any time. As a result, a decrease in interest rates in the market may result in increases in the level of prepayments as borrowers, particularly mortgagors, refinance and repay their loans. An increased prepayment rate with respect to an asset-backed security subject to such a prepayment feature will have the effect of shortening the maturity of the security. In addition, the Fund may subsequently have to reinvest the proceeds at lower interest rates. If the Fund has purchased such an asset-backed security at a premium, a faster than anticipated prepayment rate could result in a loss of principal to the extent of the premium paid.

The Fund may purchase certain mortgage pass-through securities. There are a number of important differences among the agencies and instrumentalities of the U.S. government that issue mortgage-related securities and among the securities that they issue. For example, mortgage-related securities guaranteed by Ginnie Mae are guaranteed as to the timely payment of principal and interest by Ginnie Mae and such guarantee is backed by the full faith and credit of the United States. However, mortgage-related securities issued by Freddie Mac and Fannie Mae, including Freddie Mac and Fannie Mae guaranteed mortgage pass-through certificates, which are solely the obligations of Freddie Mac and Fannie Mae, are not backed by or entitled to the full faith and credit of the United States but are supported by the right of the issuer to borrow from the Treasury.

Multiple Class Pass-Through Securities: The Fund may invest in multiple class pass-through securities, including collateralized mortgage obligations (CMOs) and commercial mortgage-backed securities. These multiple class securities may be issued by Ginnie Mae, U.S. government agencies or instrumentalities or by trusts formed by private originators of, or investors in, mortgage loans. In general, CMOs are debt obligations of a legal entity that are collateralized by, and multiple class pass-through securities represent direct ownership interests in, a pool of residential or commercial mortgage loans or mortgage pass-through securities (the Mortgage Assets), the payments on which are used to make payments on the CMOs or multiple pass-through securities. Classes of CMOs include interest only (IOs), principal only (POs), planned amortization classes and targeted amortization classes. IOs and POs are stripped mortgage-backed securities representing interests in a pool of mortgages, the cash flow from which has been separated into interest and principal components. IOs receive the interest portion of the cash flow while POs receive the principal portion. IOs and POs can be extremely volatile in response to changes in interest rates. As interest rates rise and fall, the value of IOs tends to move in the same direction as interest rates. POs perform best when prepayments on the underlying mortgages rise since this increases the rate at which the principal is returned and the yield to maturity on the PO. When payments on mortgages underlying a PO are slower than anticipated, the life of the PO is lengthened and the yield to maturity is reduced. If the underlying Mortgage Assets experience greater than anticipated pre-payments of principal, the Fund may not fully recoup its initial investment in IOs.

Notes to Financial Statements (continued)

Stripped Mortgage-Backed Securities: The Fund may invest in stripped mortgage-backed securities issued by the U.S. government, its agencies and instrumentalities. Stripped mortgage-backed securities are usually structured with two classes that receive different proportions of the interest (IOs) and principal (POs) distributions on a pool of Mortgage Assets. The Fund also may invest in stripped mortgage-backed securities that are privately issued.

Capital Trusts and Trust Preferred Securities: The Fund may invest in capital trusts and/or trust preferred securities. These securities are typically issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The securities can be structured as either fixed or adjustable coupon securities that can have either a perpetual or stated maturity date. For trust preferred securities, the issuing bank or corporation will pay interest to the trust, which will then be distributed to holders of the trust preferred securities as a dividend. Dividends can be deferred without creating an event of default or acceleration, although maturity cannot take place unless all cumulative payment obligations have been met. The deferral of payments does not affect the purchase or sale of these securities in the open market. Payments on these securities are treated as interest rather than dividends for federal income tax purposes. These securities generally are rated below that of the issuing company's senior debt securities and are freely callable at the issuer's option.

TBA Commitments: The Fund may enter into TBA commitments. TBA commitments are forward agreements for the purchase or sale of mortgage-backed securities for a fixed price, with payment and delivery on an agreed upon future settlement date. The specific securities to be delivered are not identified at the trade date. However, delivered securities must meet specified terms, including issuer, rate and mortgage terms. When entering into TBA commitments, the Fund may take possession of or deliver the underlying mortgage-backed securities but can extend the settlement or roll the transaction. TBA commitments involve a risk of loss if the value of the security to be purchased or sold declines or increases, respectively, prior to settlement date.

In order to better define contractual rights and to secure rights that will help the Fund mitigate its counterparty risk, TBA commitments may be entered into by the Fund under Master Securities Forward Transaction Agreements (each, an MSFTA). An MSFTA typically contains, among other things, collateral posting terms and netting provisions in the event of default and/or termination event. The collateral requirements are typically calculated by netting the mark to market amount for each transaction under such agreement and comparing that amount to the value of the collateral currently pledged by a Fund and the counterparty. Cash collateral that has been pledged to cover the obligations of a Fund and cash collateral received from the counterparty, if any, is reported separately on the Statement of Assets and Liabilities as cash pledged as collateral for TBA commitments or cash received as collateral for TBA commitments, respectively. Non-cash collateral pledged by a Fund, if any, are noted in the Schedule of Investments. Typically, the Fund is permitted to sell, repledge or use the collateral it receives; however, the counterparty is not. To the extent amounts due to the Fund are not fully collateralized, contractually or otherwise, the Fund bears the risk of loss from counterparty non-performance.

Mortgage Dollar Roll Transactions: The Fund may sell TBA mortgage-backed securities and simultaneously contract to repurchase substantially similar (i.e., same type, coupon and maturity) securities on a specific future date at an agreed upon price. During the period between the sale and repurchase, the Fund will not be entitled to receive interest and principal payments on the securities sold. The Fund accounts for mortgage dollar roll transactions as purchases and sales and realizes gains and losses on these transactions. These transactions may increase the Fund's portfolio turnover rate. Mortgage dollar rolls involve the risk that the market value of the securities that the Fund is required to purchase may decline below the agreed upon repurchase price of those securities.

Reverse Repurchase Agreements: The Fund may enter into reverse repurchase agreements with qualified third party broker-dealers. In a reverse repurchase agreement, the Fund sells securities to a bank or broker-dealer and agrees to repurchase the same securities at a mutually agreed upon date and price. During the term of the reverse repurchase agreement, the Fund continues to receive the principal and interest payments on the securities sold. Certain agreements have no stated maturity and can be terminated by either party at any time. Interest on the value of the reverse repurchase agreements issued and outstanding is based upon competitive market rates determined at the time of issuance. The Fund may utilize reverse repurchase agreements when it is anticipated that the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities to be repurchased may decline below the repurchase price.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 21

Notes to Financial Statements (continued)

For financial reporting purposes, cash received in exchange for securities delivered plus accrued interest due to the counterparty is recorded as a liability in the Statement of Assets and Liabilities at face value including accrued interest. Due to the short term nature of the reverse repurchase agreements, face value approximates fair value. Interest payments made by the Funds to the counterparties are recorded as a component of interest expense in the Statement of Operations. In periods of increased demand for the security, the Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund.

Reverse repurchase transactions are entered into by the Fund under Master Repurchase Agreements (MRA), which permit the Fund, under certain circumstances, including an event of default (such as bankruptcy or insolvency), to offset payables and/or receivables under the MRA with collateral held and/or posted to the counterparty and create one single net payment due to or from the Fund. With reverse repurchase transactions, typically the Fund and the counterparties are permitted to sell, re-pledge, or use the collateral associated with the transaction. Bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against such a right of offset in the event of the MRA counterparty's bankruptcy or insolvency. Pursuant to the terms of the MRA, the Fund receives or posts securities as collateral with a market value in excess of the repurchase price to be paid or received by the Fund upon the maturity of the transaction. Upon a bankruptcy or insolvency of the MRA counterparty, the Fund is considered an unsecured creditor with respect to excess collateral and, as such, the return of excess collateral may be delayed.

The following table is a summary of the Fund's open reverse repurchase agreements by counterparty which are subject to offset under an MRA on a net basis as of June 30, 2014:

Counterparty	Reverse Repurchase Agreements	Fair Value of Non-cash Collateral Pledged Including Accrued Interest ¹	Cash Collateral Pledged ¹	Net Amount ²
Credit Suisse Securities (USA) LLC	\$35,122,181	\$(35,122,181)		
Deutsche Bank Securities, Inc.	4,000,599	(3,998,752)		\$(1,847)
Merrill Lynch, Pierce Fenner & Smith	19,450,847	(18,375,847)	\$(1,075,000)	
Total	\$58,573,627	\$(57,496,780)	\$(1,075,000)	\$(1,847)

¹ Net collateral with a value of \$58,801,716 has been pledged in connection with open reverse repurchase agreements.

¹ Excess of net collateral pledged to the individual counterparty is not shown for financial reporting purposes.

² Net amount represents the net amount payable due to the counterparty in the event of default.

In the event the counterparty of securities under an MRA files for bankruptcy or becomes insolvent, the Fund's use of the proceeds from the agreement may be restricted while the counterparty, or its trustee or receiver, determines whether or not to enforce the Fund's obligation to repurchase the securities.

4. Derivative Financial Instruments:

The Fund engages in various portfolio investment strategies using derivative contracts both to increase the returns of the Fund and/or to economically hedge their exposure to certain risks such as interest rate risk. These contracts may be transacted on an exchange or OTC.

Financial Futures Contracts: The Fund purchases and/or sells financial futures contracts and options on financial futures contracts to gain exposure to, or economically hedge against, changes in interest rates (interest rate risk), or foreign currencies (foreign currency exchange rate risk). Financial futures contracts are agreements between the Fund and a counterparty to buy or sell a specific quantity of an underlying instrument at a specified price and at a specified date. Depending on the terms of the

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particular contract, financial futures contracts are settled either through physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date.

Upon entering into a financial futures contract, the Fund is required to deposit initial margin with the broker in the form of cash or securities in an amount that varies depending on a contract's size and risk profile. The initial margin deposit must then be maintained at an established level over the life of the contract. Securities deposited as initial margin are designated on the Schedule of Investments and cash deposited, if any, is recorded on the Statement of Assets and Liabilities as cash pledged for financial futures contracts. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin. Variation margin is recorded by the Fund as unrealized appreciation or depreciation and, if applicable, as a receivable or payable for variation margin in the Statement of Assets and Liabilities.

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Notes to Financial Statements (continued)

When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The use of financial futures contracts involves the risk of an imperfect correlation in the movements in the price of financial futures contracts, interest rates and the underlying assets.

Options: The Fund purchases and writes call and put options to increase or decrease its exposure to underlying instruments including (interest rate risk) and/or, in the case of options written, to generate gains from options premiums. A call option gives the purchaser (holder) of the option the right (but not the obligation) to buy, and obligates the seller (writer) to sell (when the option is exercised), the underlying instrument at the exercise or strike 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 instrument at the exercise or strike price at any time or at a specified time during the option period. When the Fund purchases (writes) an option, an amount equal to the premium paid (received) by the Fund is reflected as an asset (liability). The amount of the asset (liability) is subsequently marked-to-market to reflect the current market value of the option purchased (written). When an instrument is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the instrument acquired or deducted from (or added to) the proceeds of the instrument sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premiums received or paid). When the Fund writes a call option, such option is covered, meaning that the Fund holds the underlying instrument subject to being called by the option counterparty. When the Fund writes a put option, such option is covered by cash in an amount sufficient to cover the obligation.

Options on swaps (swaptions) are similar to options on securities except that instead of selling or purchasing the right to buy or sell a security, the writer or purchaser of the swap option is granting or buying the right to enter into a previously agreed upon interest rate swap agreement (interest rate risk) at any time before the expiration of the option.

In purchasing and writing options, the Fund bears the risk of an unfavorable change in the value of the underlying instrument or the risk that the Fund may not be able to enter into a closing transaction due to an illiquid market. Exercise of written option could result in the Fund purchasing or selling a security when it otherwise would not, or at a price different from the current market value.

Transactions in options written for the six months ended June 30, 2014, were as follows:

	Calls	
	Notional Amount (000)	Premiums Received
Outstanding options, beginning of period	\$ 145,000	\$ 499,916
Options written	652,800	2,649,000
Options closed	(417,700)	(1,972,972)
Options expired	(271,300)	(735,944)
Outstanding options, end of period	\$ 108,800	\$ 440,000

Swaps: The Fund enters into swap agreements in which the fund and a counterparty agree either to make periodic net payments on a specified notional amount or a net payment upon termination. Swap agreements are privately negotiated in the OTC market and may be entered into as a bilateral contract (OTC Swaps) or centrally cleared (centrally cleared swaps). Swaps are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation).

For OTC swaps, any upfront premiums paid are recorded as assets and any upfront fees received are recorded as liabilities and are shown as swap premiums paid and swap premiums received, respectively, in the Statement of Assets and Liabilities and amortized over the term of the OTC swap. Payments received or made by the Fund for OTC swaps are recorded in the Statement of Operations as realized gains or losses, respectively. When an OTC swap is terminated, the Fund will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Fund's basis in the contract, if any. Generally, the basis of the contracts is the premium received or paid.

In a centrally cleared swap, immediately following execution of the swap agreement, the swap agreement is novated to a central counterparty (the CCP) and the Fund's counterparty on the swap agreement becomes the CCP. The Fund is required to interface

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with the CCP through a broker. Upon entering into a centrally cleared swap, the Fund is required to deposit initial margin with the broker in the form of cash or securities in an amount that varies depending on the size and risk profile of the particular swap. Securities deposited as initial margin are designated on the Schedule of

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 23

Notes to Financial Statements (continued)

Investments and cash deposited is recorded on the Statement of Assets and Liabilities as cash pledged for centrally cleared swaps. The daily change in valuation of centrally cleared swaps is recorded as a receivable or payable for variation margin in the Statement of Assets and Liabilities. Payments received from (paid to) the counterparty, including at termination, are recorded as realized gain (loss) in the Statement of Operations.

Swap transactions involve, to varying degrees, elements of interest rate, credit and market risk in excess of the amounts recognized in the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements, and that there may be unfavorable changes in interest rates and/or market values associated with these transactions.

Interest rate swaps The Fund enters into interest rate swaps to gain or reduce exposure to interest rates or to manage duration, the yield curve or interest rate risk by economically hedging the value of the fixed rate bonds, which may decrease when interest rates rise (interest rate risk). Interest rate swaps are agreements in which one party pays a stream of interest payments, either fixed or floating, for another party's stream of interest payments, either fixed or floating, on the same notional amount for a specified period of time.

The following is a summary of the Fund's derivative financial instruments categorized by risk exposure:

Fair Values of Derivative Financial Instruments as of June 30, 2014

	Statement of Assets and Liabilities Location	Value	
		Derivative Assets	Derivative Liabilities
Interest rate contracts	Net unrealized appreciation/depreciation ¹	\$13,882	\$(11,737,510)

¹ Includes cumulative appreciation/depreciation on financial futures contracts and centrally cleared swaps, if any, as reported in the Schedule of Investments. Only current day's variation margin is reported within the Statement of Assets and Liabilities.

**The Effect of Derivative Financial Instruments in the Statement of Operations
Six Months Ended June 30, 2014**

	Net Realized Gain (Loss) From	Net Change in Unrealized Appreciation/Depreciation on
Interest rate contracts:		
Financial futures contracts	\$ (24,587)	\$ (44,239)
Swaps	(712,573)	(3,129,343)
Options	(1,370,184)	(163,894)
Foreign currency exchange contracts:		
Foreign currency transactions/translations	(444)	413
Total	\$ (2,107,788)	\$ (3,337,063)

For the six months ended June 30, 2014, the average quarterly balances of outstanding derivative financial instruments were as follows:

Financial futures contracts:	
Average number of contracts purchased	72
Average number of contracts sold	10

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Average notional value of contracts purchased	\$ 17,290,213
Average notional value of contracts sold	\$ 1,499,375
Forward foreign currency exchange contracts:	
Average number of contracts USD purchased	1
Average U.S. dollar amounts purchased	\$ 27,193
Options:	
Average number of swaption contracts written	4
Average notional value of swaption contracts written	\$108,800,000
Interest rate swaps:	
Average number of contracts pays fixed rate	2
Average notional value pays fixed rate	\$ 24,779,600

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Notes to Financial Statements (continued)

Counterparty Credit Risk: A derivative contract may suffer a mark-to-market loss if the value of the contract decreases due to an unfavorable change in the market rates or values of the underlying instrument. Losses can also occur if the counterparty does not perform under the contract.

The Fund's risk of loss from counterparty credit risk on OTC derivatives is generally limited to the aggregate unrealized gain netted against any collateral held by the Fund. For OTC options purchased, the Fund bears the risk of loss of the amount of the premiums paid plus the positive change in market values net of any collateral held by the Fund should the counterparty fail to perform under the contracts. Options written by the Fund do not typically give rise to counterparty credit risk, as options written generally obligate the Fund, and not the counterparty, to perform.

With exchange-traded futures and centrally cleared swaps, there is less counterparty credit risk to the Fund since the exchange or clearinghouse, as counterparty to such instruments, guarantees against a possible default. The clearinghouse stands between the buyer and the seller of the contract; therefore, credit risk is limited to failure of the clearinghouse. While offset rights may exist under applicable law, the Fund does not have a contractual right of offset against a clearing broker or clearinghouse in the event of a default (including the bankruptcy or insolvency) of the clearing broker or clearinghouse. Additionally, credit risk exists in exchange traded futures and centrally cleared swaps with respect to initial and variation margin that is held in a clearing broker's customer accounts. While clearing brokers are required to segregate customer margin from their own assets, in the event that a clearing broker becomes insolvent or goes into bankruptcy and at that time there is a shortfall in the aggregate amount of margin held by the clearing broker for all its clients, typically the shortfall would be allocated on a pro rata basis across all the clearing broker's customers, potentially resulting in losses to the Fund.

In order to better define its contractual rights and to secure rights that will help the Fund mitigate its counterparty risk, the Fund may enter into an International Swaps and Derivatives Association, Inc. Master Agreement (ISDA Master Agreement) or similar agreement with its counterparties. An ISDA Master Agreement is a bilateral agreement between each Fund and a counterparty that governs certain OTC derivatives and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, the Fund may, under certain circumstances, offset with the counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. The provisions of the ISDA Master Agreement typically permit a single net payment in the event of default including the bankruptcy or insolvency of the counterparty. When the Fund enters into an ISDA and an MRA and/or MSLA with the same counterparty, the agreements may contain a set-off provision allowing a fund to offset a net amount payable with amounts due to the Fund upon default of the counterparty. Bankruptcy or insolvency laws of a particular jurisdiction may restrict or prohibit the right of offset in bankruptcy, insolvency or other events. For example, notwithstanding what contractual rights may be included in an ISDA Master Agreement, such laws may prohibit the Fund from setting off amounts owed to a defaulting counterparty under an ISDA Master Agreement against amounts owed to the Fund by affiliates of the defaulting counterparty. The insolvency regimes of many jurisdictions do, however, generally permit set-off of simultaneous payables and receivables under certain types of financial contracts between the same legal entity upon a default of the entity, regardless of the existence of a contractual set-off right in those contracts. In addition, certain ISDA Master Agreements allow counterparties to OTC derivatives to terminate derivative contracts prior to maturity in the event the Fund's net assets decline by a stated percentage or the Fund fails to meet the terms of its ISDA Master Agreements, which would cause the Fund to accelerate payment of any net liability owed to the counterparty.

Collateral Requirements: For derivatives traded under an ISDA Master Agreement, the collateral requirements are typically calculated by netting the mark-to-market amount for each transaction under such agreement and comparing that amount to the value of any collateral currently pledged by the Fund and the counterparty.

Cash collateral that has been pledged to cover obligations of the Fund and cash collateral received from the counterparty, if any, is reported separately on the Statement of Assets and Liabilities as cash pledged as collateral and cash received as collateral, respectively. Non-cash collateral pledged by the Fund, if any, is noted in the Schedule of Investments. Generally, the amount of collateral due from or to a party has to exceed a minimum transfer amount threshold (typically either \$250,000 or \$500,000) before a transfer is required, which is determined at the close of business of the Fund. Any additional required collateral is delivered to/pledged by the Fund on the next business day. Typically, the Fund and counterparties are not permitted to sell, re-pledge or use the collateral they receive. To the extent amounts due to the Fund from its counterparties are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance. Likewise, to the extent the Fund has delivered collateral to a counterparty and stands ready to perform under the terms of its agreement with such counterparty, the Fund bears the risk of loss from a counterparty in the amount of the value of the collateral in the event the counterparty fails to return such collateral.

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For financial reporting purposes, the Fund does not offset derivative assets and derivative liabilities that are subject to netting arrangements, if any, in the Statement of Assets and Liabilities.

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Notes to Financial Statements (continued)

At June 30, 2014, the Fund's derivative assets and liabilities (by type) are as follows:

	Assets	Liabilities
Derivative Financial Instruments:		
Financial futures contracts		\$13,125
Options		477,016
Swaps - centrally cleared		1,731
Swaps - OTC		11,211,721
Total derivative assets and liabilities in the Statement of Assets and Liabilities		\$11,703,593
Derivatives not subject to a Master Netting Agreement or similar agreement (MNA)		(14,856)
Total derivative assets and liabilities subject to an MNA		\$11,688,737

¹ Includes unrealized appreciation/depreciation on OTC swaps and swap premiums paid/received in the Statement of Assets and Liabilities.

The following table presents the Fund's derivative liabilities by counterparty net of amounts available for offset under an MNA and net of the related collateral received and pledged by the Fund as of June 30, 2014:

Counterparty	Derivative Liabilities Subject an MNA by Counterparty	Derivatives Available for Collateral Offset ²	Non-cash Collateral Pledged ³	Cash Collateral Pledged ³	Net Amount of Derivative Liabilities ⁴
Credit Suisse Securities (USA) LLC	\$ 477,016				\$477,016
Deutsche Bank AG	11,211,721			\$(11,211,721)	
Total	\$11,688,737			\$(11,211,721)	\$477,016

² The amount of derivatives available for offset is limited to the amount of derivative assets and/or liabilities that are subject to an MNA.

³ Excess of collateral pledged to the individual counterparty is not shown for financial reporting purposes.

⁴ Net amount represents the net amount payable due to the counterparty in the event of default.

5. Investment Advisory Agreement and Other Transactions with Affiliates:

The PNC Financial Services Group, Inc. is the largest stockholder and an affiliate, for 1940 Act purposes, of BlackRock, Inc. (BlackRock).

The Fund entered into an Investment Advisory Agreement with BlackRock Advisors, LLC (the Manager), the Fund's investment advisor, an indirect, wholly owned subsidiary of BlackRock, to provide investment advisory and administration services. The Manager is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays the Manager a monthly fee at an annual rate of 0.85% of the Fund's average daily net assets, plus the proceeds of any outstanding borrowings used for leverage.

The Manager voluntarily agreed to waive a portion of its investment advisory fees equal to the annual rate of 0.20% of the Fund's average daily net assets, plus the proceeds of any outstanding borrowings used for leverage. Prior to June 9, 2014, the Manager voluntarily agreed to waive a portion of its investment advisory fees equal to the annual rate of 0.10% of the Fund's average daily

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net assets. This amount is included in fees waived by Manager in the Statement of Operations. The Fund waived \$105,546 pursuant to this agreement.

The Manager voluntarily agreed to waive its investment advisory fees by the amount of investment advisory fees the Fund pays to the Manager indirectly through its investment in affiliated money market funds. However, the Manager does not waive its investment advisory fees by the amount of investment advisory fees paid in connection with the Fund's investment in other affiliated investment companies, if any. This amount is included in fees waived by Manager in the Statement of Operations. The Manager waived \$1,518 pursuant to this agreement.

The Manager entered into a sub-advisory agreement with BlackRock Financial Management, Inc. (BFM), an affiliate of the Manager. The Manager pays BFM for services it provides, a monthly fee that is a percentage of the investment advisory fees paid by the Fund to the Manager. Effective July 1, 2014, the sub-advisory agreement expired.

Certain officers and/or Directors of the Fund are officers and/or Directors of BlackRock or its affiliates. The Fund reimburses the Manager for a portion of the compensation paid to the Fund's Chief Compliance Officer, which is included in officer and directors in the Statement of Operations.

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Notes to Financial Statements (continued)

6. Purchases and Sales:

Purchases and sales of investments, including mortgage dollar rolls and excluding short-term securities for the six months ended June 30, 2014 were as follows:

	Purchases	Sales
Non-U.S. Government Securities	\$ 64,444,563	\$ 75,038,675*
U.S. Government Securities	\$ 13,672,844	\$ 2,988,750

*Including paydowns.

Purchases and sales related to mortgage dollar rolls for the six months ended June 30, 2014 were \$40,424,102 and \$40,365,051, respectively.

7. Income Tax Information:

It is the Fund's policy to comply with the requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies, and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

The Fund files U.S. federal and various state and local tax returns. No income tax returns are currently under examination. The statute of limitations on the Fund's U.S. federal tax returns remains open for each of the four years ended December 31, 2013. The statutes of limitations on the Fund's state and local tax returns may remain open for an additional year depending upon the jurisdiction.

Management has analyzed tax laws and regulations and their application to the Fund's facts and circumstances and does not believe there are any uncertain tax positions that require recognition of a tax liability.

As of December 31, 2013, the Fund had capital loss carryforwards available to offset future realized capital gains through the indicated expiration dates as follows:

Expires December 31,

2017	\$2,037,204
No expiration date ¹	5,260,391
Total	\$7,297,595

¹ Must be utilized prior to losses subject to expiration.

As of June 30, 2014, gross unrealized appreciation and depreciation based on cost for federal income tax purposes were as follows:

Tax cost	\$187,181,961
Gross unrealized appreciation	7,116,918
Gross unrealized depreciation	(1,532,148)
Net unrealized appreciation	\$ 5,584,770

8. Borrowings:

For the six months ended June 30, 2014, the daily weighted average interest rates from reverse repurchase agreements were 0.06%.

9. Concentration, Market and Credit Risk:

In the normal course of business, the Fund invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk) or failure of the issuer of a security to meet all its obligations (issuer credit risk). The value of securities

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held by the Fund may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Fund may be exposed to counterparty credit risk, or the risk that an entity with which the Fund has unsettled or open transactions may fail to or be unable to perform on its commitments. The Fund manages counterparty credit risk by entering into transactions only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Financial assets, which potentially expose the Fund to market, issuer and counterparty credit risks, consist principally of

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 27

Notes to Financial Statements (concluded)

financial instruments and receivables due from counterparties. The extent of the Fund's exposure to market, issuer and counterparty credit risks with respect to these financial assets is generally approximated by their value recorded in the Statement of Assets and Liabilities, less any collateral held by the Fund.

The Fund invests a significant portion of its assets in fixed-income securities and/or uses derivatives tied to the fixed income markets. See the Schedule of Investments for these securities and derivatives. Changes in market interest rates or economic conditions, including the Federal Reserve's decision in December 2013 to taper its quantitative easing policy, may affect the value and/or liquidity of such investments. Interest rate risk is the risk that prices of bonds and other fixed-income securities will increase as interest rates fall and decrease as interest rates rise. The Fund may be subject to a greater risk of rising interest rates due to the current period of historically low rates.

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

10. Capital Share Transactions:

The Fund is authorized to issue 200 million shares, all of which were initially classified as Common Shares. The Board is authorized, however, to reclassify any unissued shares without approval of Common Shareholders.

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

The Fund will make offers to repurchase between 5% and 25% of its outstanding shares at approximate 12 month intervals. The amount of the repurchase offer is shown as redemptions of shares resulting from a repurchase offer in the Statement of Changes in Net Assets. The Fund may charge a repurchase fee of up to 2% of the value of the shares that are repurchased to compensate the Fund for expenses directly related to the repurchase offer, which is included in the capital share transactions in the Statement of Changes in Net Assets. Costs directly related to the repurchase offer, primarily mailing and printing costs, are shown as repurchase offer in the Statement of Operations.

Changes in Common Shares issued and outstanding for the six months ended June 30, 2014 and the year ended December 31, 2013 were as follows:

	Six Months Ended June 30, 2014	Year Ended December 31, 2013
Repurchase offer		(989,967)

11. Subsequent Events:

Management's evaluation of the impact of all subsequent events on the Fund's financial statements was completed through the date the financial statements were issued and the following items were noted:

The Fund paid a net investment income dividend in the amount of \$0.055 per share on July 31, 2014 to shareholders of record on July 15, 2014.

Additionally, the Fund declared a net investment income dividend in the amount of \$0.055 per share on August 1, 2014 to shareholders of record on August 15, 2014.

Disclosure of Investment Advisory Agreement

The Board of Directors (the Board, the members of which are referred to as Board Members) of BlackRock Enhanced Government Fund, Inc. (the Fund) met in person on May 9, 2014 (the May Meeting) and June 5-6, 2014 (the June Meeting) to consider the approval of the Fund's investment advisory agreement (the Advisory Agreement) with BlackRock Advisors, LLC (the Manager), the Fund's investment advisor. At the June Meeting, it was noted that the sub-advisory agreement among the Manager, BlackRock Financial Management, Inc. and the Fund would expire effective July 1, 2014. It was also noted that the non-renewal of the sub-advisory agreement would not result in any change in the nature or quality of services provided to the Fund, or in the portfolio management team that serves the Fund. The Manager is referred to herein as BlackRock.

Activities and Composition of the Board

The Board consists of eleven individuals, nine of whom are not interested persons of the Fund as defined in the Investment Company Act of 1940 (the 1940 Act) (the Independent Board Members). The Board Members are responsible for the oversight of the operations of the Fund and perform the various duties imposed on the directors of investment companies by the 1940 Act. The Independent Board Members have retained independent legal counsel to assist them in connection with their duties. The Chairman of the Board is an Independent Board Member. The Board has established six standing committees: an Audit Committee, a Governance and Nominating Committee, a Compliance Committee, a Performance Oversight Committee, an Executive Committee, and a Leverage Committee, each of which is chaired by an Independent Board Member and composed of Independent Board Members (except for the Executive Committee and the Leverage Committee, each of which also has one interested Board Member).

The Advisory Agreement

Pursuant to the 1940 Act, the Board is required to consider the continuation of the Advisory Agreement on an annual basis. The Board has four quarterly meetings per year, each extending over two days, and a fifth one-day meeting to consider specific information surrounding the consideration of renewing the Advisory Agreement. In connection with this process, the Board assessed, among other things, the nature, scope and quality of the services provided to the Fund by BlackRock, its personnel and its affiliates, including, as applicable, investment management, administrative, and shareholder services; oversight of fund service providers; marketing services; risk oversight; compliance and assistance in meeting applicable legal and regulatory requirements.

The Board, acting directly and through its committees, considers at each of its meetings, and from time to time as appropriate, factors that are relevant to its annual consideration of the renewal of the Advisory Agreement, including the services and support provided by BlackRock to the Fund and its shareholders. Among the matters the Board considered were: (a) investment performance for one-year, three-year, five-year and/or since inception periods, as applicable, against peer funds, and applicable benchmarks, if any, as well as senior management's and portfolio managers' analysis of the reasons for any over-performance or underperformance against its peers and/or benchmark, as applicable; (b) fees, including advisory, administration, if applicable, and other amounts paid to BlackRock and its affiliates by the Fund for services such as call center; (c) Fund operating expenses and how BlackRock allocates expenses to the Fund; (d) the resources devoted to, risk oversight of, and compliance reports relating to, implementation of the Fund's investment objective, policies and restrictions, and meeting new regulatory requirements; (e) the Fund's compliance with its Code of Ethics and other compliance policies and procedures; (f) the nature, cost and character of non-investment management services provided by BlackRock and its affiliates; (g) BlackRock's and other service providers' internal controls and risk and compliance oversight mechanisms; (h) BlackRock's implementation of the proxy voting policies approved by the Board; (i) execution quality of portfolio transactions; (j) BlackRock's implementation of the Fund's valuation and liquidity procedures; (k) an analysis of management fees for products with similar investment objectives across the open-end fund, closed-end fund and institutional account product channels, as applicable; (l) BlackRock's compensation methodology for its investment professionals and the incentives it creates; and (m) periodic updates on BlackRock's business.

The Board has engaged in an ongoing strategic review with BlackRock of opportunities to consolidate funds and of BlackRock's commitment to investment performance. BlackRock also furnished information to the Board in response to specific questions. These questions covered issues such as: BlackRock's profitability; investment performance; subadvisory and advisory relationships with other clients (including mutual funds sponsored by third parties); investment professional investment in funds they manage; and management fee levels and breakpoints. The Board further discussed with BlackRock: BlackRock's management structure; portfolio turnover; BlackRock's portfolio manager compensation and performance accountability; marketing support for the Fund; services provided to the Fund by BlackRock affiliates; and BlackRock's oversight of relationships with third party service providers.

Board Considerations in Approving the Advisory Agreement

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The Approval Process: Prior to the May Meeting, the Board requested and received materials specifically relating to the Advisory Agreement. The Board is continuously engaged in a process with its independent legal counsel and BlackRock to review the nature and scope of the information provided to better assist its deliberations. The materials provided in connection with the May Meeting included (a) information independently compiled and prepared by Lipper, Inc. (Lipper) on Fund fees and expenses as compared with a peer group of funds

BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 29

Disclosure of Investment Advisory Agreement (continued)

as determined by Lipper (Expense Peers) and the investment performance of the Fund as compared with a peer group of funds as determined by Lipper¹ as well as the investment performance of the Fund as compared with its custom benchmark; (b) information on the profits realized by BlackRock and its affiliates pursuant to the Advisory Agreement and a discussion of fall-out benefits to BlackRock and its affiliates; (c) a general analysis provided by BlackRock concerning investment management fees charged to other clients, such as institutional clients and open-end funds, under similar investment mandates, as applicable; (d) review of non-management fees; (e) the existence, impact and sharing of potential economies of scale; (f) a summary of aggregate amounts paid by the Fund to BlackRock and (g) if applicable, a comparison of management fees to similar BlackRock closed-end funds, as classified by Lipper.

At the May Meeting, the Board reviewed materials relating to its consideration of the Advisory Agreement. As a result of the discussions that occurred during the May Meeting, and as a culmination of the Board's year-long deliberative process, the Board presented BlackRock with questions and requests for additional information. BlackRock responded to these requests with additional written information in advance of the June Meeting.

At the June Meeting, the Board, including the Independent Board Members, unanimously approved the continuation of the Advisory Agreement between the Manager and the Fund for a one-year term ending June 30, 2015. In approving the continuation of the Advisory Agreement, the Board considered: (a) the nature, extent and quality of the services provided by BlackRock; (b) the investment performance of the Fund and BlackRock; (c) the advisory fee and the cost of the services and profits to be realized by BlackRock and its affiliates from their relationship with the Fund; (d) the Fund's costs to investors compared to the costs of Expense Peers and performance compared to the relevant performance comparison as previously discussed; (e) economies of scale; (f) fall-out benefits to BlackRock and its affiliates as a result of its relationship with the Fund; and (g) other factors deemed relevant by the Board Members.

The Board also considered other matters it deemed important to the approval process, such as payments made to BlackRock or its affiliates relating to securities lending, services related to the valuation and pricing of Fund portfolio holdings, direct and indirect benefits to BlackRock and its affiliates from their relationship with the Fund and advice from independent legal counsel with respect to the review process and materials submitted for the Board's review. The Board noted the willingness of BlackRock personnel to engage in open, candid discussions with the Board. The Board did not identify any particular information as determinative, and each Board Member may have attributed different weights to the various items considered.

A. Nature, Extent and Quality of the Services Provided by BlackRock: The Board, including the Independent Board Members, reviewed the nature, extent and quality of services provided by BlackRock, including the investment advisory services and the resulting performance of the Fund. Throughout the year, the Board compared Fund performance to the performance of a comparable group of closed-end funds and/or the performance of a relevant benchmark, as applicable. The Board met with BlackRock's senior management personnel responsible for investment activities, including the senior investment officers. The Board also reviewed the materials provided by the Fund's portfolio management team discussing the Fund's performance and the Fund's investment objective, strategies and outlook.

The Board considered, among other factors, with respect to BlackRock: the number, education and experience of investment personnel generally and the Fund's portfolio management team; investments by portfolio managers in the funds they manage; portfolio trading capabilities; use of technology; commitment to compliance; credit analysis capabilities; risk analysis and oversight capabilities; and the approach to training and retaining portfolio managers and other research, advisory and management personnel. The Board engaged in a review of BlackRock's compensation structure with respect to the Fund's portfolio management team and BlackRock's ability to attract and retain high-quality talent and create performance incentives.

In addition to advisory services, the Board considered the quality of the administrative and other non-investment advisory services provided to the Fund. BlackRock and its affiliates provide the Fund with certain services (in addition to any such services provided to the Fund by third parties) and officers and other personnel as are necessary for the operations of the Fund. In particular, BlackRock and its affiliates provide the Fund with the following administrative services including, among others: (i) preparing disclosure documents, such as the prospectus and the statement of additional information in connection with the initial public offering and periodic shareholder reports; (ii) preparing communications with analysts to support secondary market trading of the Fund; (iii) oversight of daily accounting and pricing; (iv) preparing periodic filings with regulators and stock exchanges; (v) overseeing and coordinating the activities of other service providers; (vi) organizing Board meetings and preparing the materials for such Board meetings; (vii) providing legal and compliance support; (viii) furnishing analytical and other support to assist the Board in its consideration of strategic issues such as the merger or consolidation of certain closed-end funds; and (ix) performing other administrative functions necessary for the operation of the Fund, such as tax reporting, fulfilling regulatory filing requirements and call center services. The Board reviewed the structure and duties of BlackRock's fund administration, shareholder services, legal

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and compliance departments and considered BlackRock's policies and procedures for assuring compliance with applicable laws and regulations.

¹ Funds are ranked by Lipper in quartiles, ranging from first to fourth, where first is the most desirable quartile position and fourth is the least desirable.

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Disclosure of Investment Advisory Agreement (continued)

B. The Investment Performance of the Fund and BlackRock: The Board, including the Independent Board Members, also reviewed and considered the performance history of the Fund. In preparation for the May Meeting, the Board worked with its independent legal counsel, BlackRock and Lipper to develop a template for, and was provided with reports independently prepared by Lipper, which included a comprehensive analysis of the Fund's performance. The Board also reviewed a narrative and statistical analysis of the Lipper data that was prepared by BlackRock, which analyzed various factors that affect Lipper's rankings. In connection with its review, the Board received and reviewed information regarding the investment performance, based on net asset value (NAV), of the Fund as compared to other funds in its applicable Lipper category and the investment performance of the Fund as compared with its custom benchmark. The Board was provided with a description of the methodology used by Lipper to select peer funds and periodically meets with Lipper representatives to review its methodology. The Board and its Performance Oversight Committee regularly review, and meet with Fund management to discuss, the performance of the Fund throughout the year.

The Board noted that for each of the one-, three- and five-year periods reported, the Fund's performance exceeded its customized benchmark. BlackRock believes that performance relative to the customized benchmark is an appropriate performance metric for the Fund.

C. Consideration of the Advisory/Management Fees and the Cost of the Services and Profits to be Realized by BlackRock and its Affiliates from their Relationship with the Fund: The Board, including the Independent Board Members, reviewed the Fund's contractual management fee rate compared with the other funds in its Lipper category. The contractual management fee rate represents a combination of the advisory fee and any administrative fees, before taking into account any reimbursements or fee waivers. The Board also compared the Fund's total expense ratio, as well as its actual management fee rate, to those of other funds in its Lipper category. The total expense ratio represents a fund's total net operating expenses, excluding any investment related expenses. The total expense ratio gives effect to any expense reimbursements or fee waivers that benefit a fund, and the actual management fee rate gives effect to any management fee reimbursements or waivers that benefit a fund. The Board considered the services provided and the fees charged by BlackRock and its affiliates to other types of clients with similar investment mandates, as applicable, including institutional accounts.

The Board received and reviewed statements relating to BlackRock's financial condition. The Board was also provided with a profitability analysis that detailed the revenues earned and the expenses incurred by BlackRock for services provided to the Fund. The Board reviewed BlackRock's profitability with respect to the Fund and other funds the Board currently oversees for the year ended December 31, 2013 compared to available aggregate profitability data provided for the prior two years. The Board reviewed BlackRock's profitability with respect to certain other fund complexes managed by the Manager and/or its affiliates. The Board reviewed BlackRock's assumptions and methodology of allocating expenses in the profitability analysis, noting the inherent limitations in allocating costs among various advisory products. The Board recognized that profitability may be affected by numerous factors including, among other things, fee waivers and expense reimbursements by the Manager, the types of funds managed, precision of expense allocations and business mix. As a result, calculating and comparing profitability at individual fund levels is difficult.

The Board noted that, in general, individual fund or product line profitability of other advisors is not publicly available. The Board reviewed BlackRock's overall operating margin, in general, compared to that of certain other publicly-traded asset management firms. The Board considered the differences between BlackRock and these other firms, including the contribution of technology at BlackRock, BlackRock's expense management, and the relative product mix.

In addition, the Board considered the cost of the services provided to the Fund by BlackRock, and BlackRock's and its affiliates' profits relating to the management of the Fund and the other funds advised by BlackRock and its affiliates. As part of its analysis, the Board reviewed BlackRock's methodology in allocating its costs to the management of the Fund. The Board also considered whether BlackRock has the financial resources necessary to attract and retain high quality investment management personnel to perform its obligations under the Advisory Agreement and to continue to provide the high quality of services that is expected by the Board. The Board further considered factors including but not limited to BlackRock's commitment of time, assumption of risk and liability profile in servicing the Fund in contrast to what is required of BlackRock with respect to other products with similar investment objectives across the open-end fund, ETF, closed-end fund and institutional account product channels, as applicable.

The Board noted that the Fund's contractual management fee rate ranked in the fourth quartile, and that the actual management fee rate and total expense ratio each ranked in the fourth quartile, relative to the Expense Peers. The Board noted, however, that the Fund is compared to Expense Peers that do not employ a similar option writing strategy. The Board also noted that BlackRock had voluntarily agreed to waive a portion of the advisory fee payable by the Fund, which was implemented on June 6, 2013. In addition, after discussions between the Board, including the Independent Board Members, and BlackRock, the Board and BlackRock agreed to an increase to the voluntary advisory fee waiver. This waiver increase, which will result in additional savings to shareholders, became effective on June 9, 2014.

Disclosure of Investment Advisory Agreement (concluded)

D. Economies of Scale: The Board, including the Independent Board Members, considered the extent to which economies of scale might be realized as the assets of the Fund increase. The Board also considered the extent to which the Fund benefits from such economies and whether there should be changes in the advisory fee rate or breakpoint structure in order to enable the Fund to participate in these economies of scale, for example through the use of breakpoints in the advisory fee based upon the asset level of the Fund.

Based on the Board's review and consideration of the issue, the Board concluded that most closed-end funds do not have fund level breakpoints because closed-end funds generally do not experience substantial growth after the initial public offering. They are typically priced at scale at a fund's inception. The Board noted that only one closed-end fund in the Fund Complex has breakpoints in its advisory fee structure.

E. Other Factors Deemed Relevant by the Board Members: The Board, including the Independent Board Members, also took into account other ancillary or "fall-out" benefits that BlackRock or its affiliates may derive from their respective relationships with the Fund, both tangible and intangible, such as BlackRock's ability to leverage its investment professionals who manage other portfolios and risk management personnel, an increase in BlackRock's profile in the investment advisory community, and the engagement of BlackRock's affiliates as service providers to the Fund, including securities lending and cash management services. The Board also considered BlackRock's overall operations and its efforts to expand the scale of, and improve the quality of, its operations. The Board also noted that BlackRock may use and benefit from third party research obtained by soft dollars generated by certain registered fund transactions to assist in managing all or a number of its other client accounts. The Board further noted that it had considered the investment by BlackRock's funds in exchange traded funds (i.e., ETFs) without any offset against the management fees payable by the funds to BlackRock.

In connection with its consideration of the Advisory Agreement, the Board also received information regarding BlackRock's brokerage and soft dollar practices. The Board received reports from BlackRock which included information on brokerage commissions and trade execution practices throughout the year.

The Board noted the competitive nature of the closed-end fund marketplace, and that shareholders are able to sell their Fund shares in the secondary market if they believe that the Fund's fees and expenses are too high or if they are dissatisfied with the performance of the Fund.

The Board also considered the various notable initiatives and projects BlackRock performed in connection with its closed-end fund product line. These initiatives included completion of the refinancing of auction rate preferred securities; developing equity shelf programs; efforts to eliminate product overlap with fund mergers; ongoing services to manage leverage that has become increasingly complex; share repurchases and other support initiatives for certain BlackRock funds; and continued communications efforts with shareholders, fund analysts and financial advisers. With respect to the latter, the Independent Board Members noted BlackRock's continued commitment to supporting the secondary market for the common shares of its closed-end funds through a comprehensive secondary market communication program designed to raise investor and analyst awareness and understanding of closed-end funds. BlackRock's support services included, among other things: continuing communications concerning the refinancing efforts related to auction rate preferred securities; sponsoring and participating in conferences; communicating with closed-end fund analysts covering the BlackRock funds throughout the year; providing marketing and product updates for the closed-end funds; and maintaining and enhancing its closed-end fund website.

Conclusion

The Board, including the Independent Board Members, unanimously approved the continuation of the Advisory Agreement between the Manager and the Fund for a one-year term ending June 30, 2015. Based upon its evaluation of all of the aforementioned factors in their totality, the Board, including the Independent Board Members, was satisfied that the terms of the Advisory Agreement were fair and reasonable and in the best interest of the Fund and its shareholders. In arriving at its decision to approve the Advisory Agreement, the Board did not identify any single factor or group of factors as all-important or controlling, but considered all factors together, and different Board Members may have attributed different weights to the various factors considered. The Independent Board Members were also assisted by the advice of independent legal counsel in making this determination. The contractual fee arrangements for the Fund reflect the results of several years of review by the Board Members and predecessor Board Members, and discussions between such Board Members (and predecessor Board Members) and BlackRock. As a result, the Board Members' conclusions may be based in part on their consideration of these arrangements in prior years.

Officers and Directors

Richard E. Cavanagh, Chairman of the Board and Director
 Karen P. Robards, Vice Chairperson of the Board, Chairperson of the Audit Committee and Director
 Paul L. Audet, Director
 Michael J. Castellano, Director and Member of the Audit Committee
 Frank J. Fabozzi, Director and Member of the Audit Committee
 Kathleen F. Feldstein, Director
 James T. Flynn, Director and Member of the Audit Committee
 Henry Gabbay, Director
 Jerrold B. Harris, Director
 R. Glenn Hubbard, Director
 W. Carl Kester, Director and Member of the Audit Committee
 John M. Perlowski, President and Chief Executive Officer
 Brendan Kyne, Vice President
 Robert W. Crothers, Vice President
 Neal Andrews, Chief Financial Officer
 Jay Fife, Treasurer
 Charles Park, Chief Compliance Officer and Anti-Money Laundering Officer
 Janey Ahn, Secretary

Effective June 6, 2014, Brian Kindelan resigned as Chief Compliance Officer and Anti-Money Laundering Officer of the Fund and Charles Park became Chief Compliance Officer and Anti-Money Laundering Officer of the Fund. Mr. Park joined BlackRock in 2009 and is the current Global Chief Compliance Officer of the BlackRock iShares exchange traded funds.

<p>Investment Advisor BlackRock Advisors, LLC Wilmington, DE 19809</p> <p>Sub-Advisor BlackRock Financial Management, Inc. New York, NY 10055</p>	<p>Custodian and Accounting Agent State Street Bank and Trust Company Boston, MA 02110</p> <p>Transfer Agent Computershare Trust Company, N.A. Canton, MA 02021</p>	<p>Independent Registered Public Accounting Firm Deloitte & Touche LLP Boston, MA 02116</p> <p>Legal Counsel Skadden, Arps, Slate, Meagher & Flom LLP New York, NY 10036</p>	<p>Address of the Fund 100 Bellevue Parkway Wilmington, DE 19809</p>
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BLACKROCK ENHANCED GOVERNMENT FUND, INC. JUNE 30, 2014 33

Additional Information

General Information

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

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

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

Electronic Delivery

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

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

Please contact your financial advisor to enroll. Please note that not all investment advisors, banks or brokerages may offer this service.

Householding

The Fund will mail only one copy of shareholder documents, including annual and semi-annual reports and proxy statements, to shareholders with multiple accounts at the same address. This practice is commonly called "householding" and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be 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 call (800) 882-0052.

Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on how to access documents on the SEC's website without charge may be obtained by calling (800) SEC-0330. The Fund's Forms N-Q may also be obtained upon request and without charge by calling (800) 882-0052.

Availability of Proxy Voting Policies and Procedures

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling (800) 882-0052; (2) at <http://www.blackrock.com>; and (3) on the SEC's website at <http://www.sec.gov>.

Availability of Proxy Voting Record

Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available upon request and without charge (1) at <http://www.blackrock.com> or by calling (800) 882-0052 and (2) on the SEC's website at <http://www.sec.gov>.

Availability of Fund Updates

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BlackRock will update performance data and certain other data for the Fund on a monthly basis on its website in the Closed-end Funds section of <http://www.blackrock.com> as well as certain other material information as necessary from time to time. Investors and others are advised to periodically check the website for updated performance information and the release of other material information about the Fund. This reference to BlackRock's website is intended to allow investors public access to information regarding the Fund and does not, and is not intended to, incorporate BlackRock's website in this report.

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Additional Information (concluded)

Fundamental Periodic Repurchase Policy

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

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

- (a) The Fund will make repurchase offers at periodic intervals pursuant to Rule 23c-3 under the 1940 Act.
- (b) The periodic interval between repurchase request deadlines will be approximately 12 months.
- (c) The maximum number of days between a repurchase request deadline and the next repurchase pricing date will be 14 days; provided that if the 14th day after a repurchase request deadline is not a business day, the repurchase pricing date shall be the next business day.

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

Shelf Offering Program

From time-to-time, the Fund may seek to raise additional equity capital through an equity shelf program (a Shelf Offering). In a Shelf Offering, the Fund may, subject to market conditions, raise additional equity capital by issuing new Common Shares from time to time in varying amounts at a net price at or above the Fund's net asset value (NAV) per Common Share (calculated within 48 hours of pricing). While any such Shelf Offering may allow the Fund to pursue additional investment opportunities without the need to sell existing portfolio investments, it could also entail risks including that the issuance of additional Common Shares may limit the extent to which the Common Shares are able to trade at a premium to NAV in the secondary market.

The Fund has not filed a registration statement with respect to any Shelf Offerings. This report is not an offer to sell Fund Common Shares and is not a solicitation of an offer to buy Fund Common Shares. If the Fund files a registration statement with respect to any Shelf Offering, the prospectus contained therein will contain more complete information about the Fund and should be read carefully before investing.

BlackRock Privacy Principles

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

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

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

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

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

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This report is intended for existing shareholders. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. The Fund has leveraged its Common Shares, which creates risks for Common Shareholders, including the likelihood of greater volatility of net asset value and market price of the Common Shares, and the risk that fluctuations in short-term interest rates may reduce the Common Shares yield. Statements and other information herein are as dated and are subject to change.

EGF-6/14-SAR

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

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

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

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

Item 6 ~~Investments~~

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

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

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

Item 8 ~~Portfolio Managers of Closed-End Management Investment Companies~~

(a) Not Applicable to this semi-annual report

(b) As of the date of this filing, there have been no changes in any of the portfolio managers identified in the most recent annual report on Form N-CSR.

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

Item 10 ~~Submission of Matters to a Vote of Security Holders – There have been no material changes to these procedures.~~

Item 11 ~~Controls and Procedures~~

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

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

Item 12 ~~Exhibits attached hereto~~

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

(a)(2) – Certifications – Attached hereto

(a)(3) – Not Applicable

(b) – Certifications – Attached hereto

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

BlackRock Enhanced Government Fund, Inc.

By: /s/ John M. Perlowski

John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Enhanced Government Fund, Inc.

Date: September 3, 2014

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

By: /s/ John M. Perlowski

John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Enhanced Government Fund, Inc.

Date: September 3, 2014

By: /s/ Neal J. Andrews

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

Date: September 3, 2014