

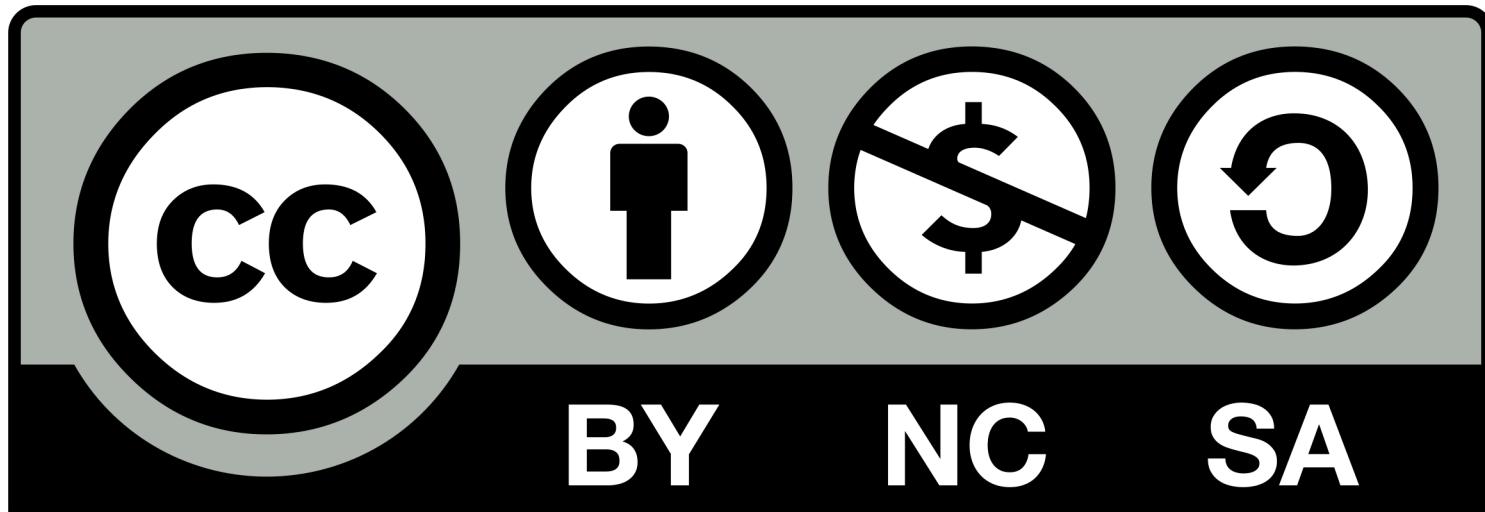
Technical Introduction To Bitcoin

DISCOVERING THE MAGIC INTERNET MONEY

Stéphane Roche

CREATIVE COMMONS

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ABOUT STEPHANE



2015

Work at Ledger - hardware wallet company



2017–2019

Found Bitcoin Studio
Focus on Bitcoin education
Consultant at Chainsmiths



Work on Ethereum

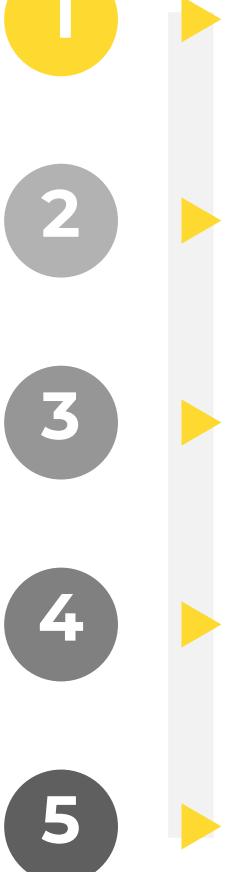
- Learn and play
- Co-found non-profit organization Asseth
- Contribute to the ERC20 Consensys smart contracts
- Dether.io



2016–2017

<https://www.bitcoin-studio.com>
@janakaSteph on Twitter
bitcoin-studio@protonmail.com

OUTLINE

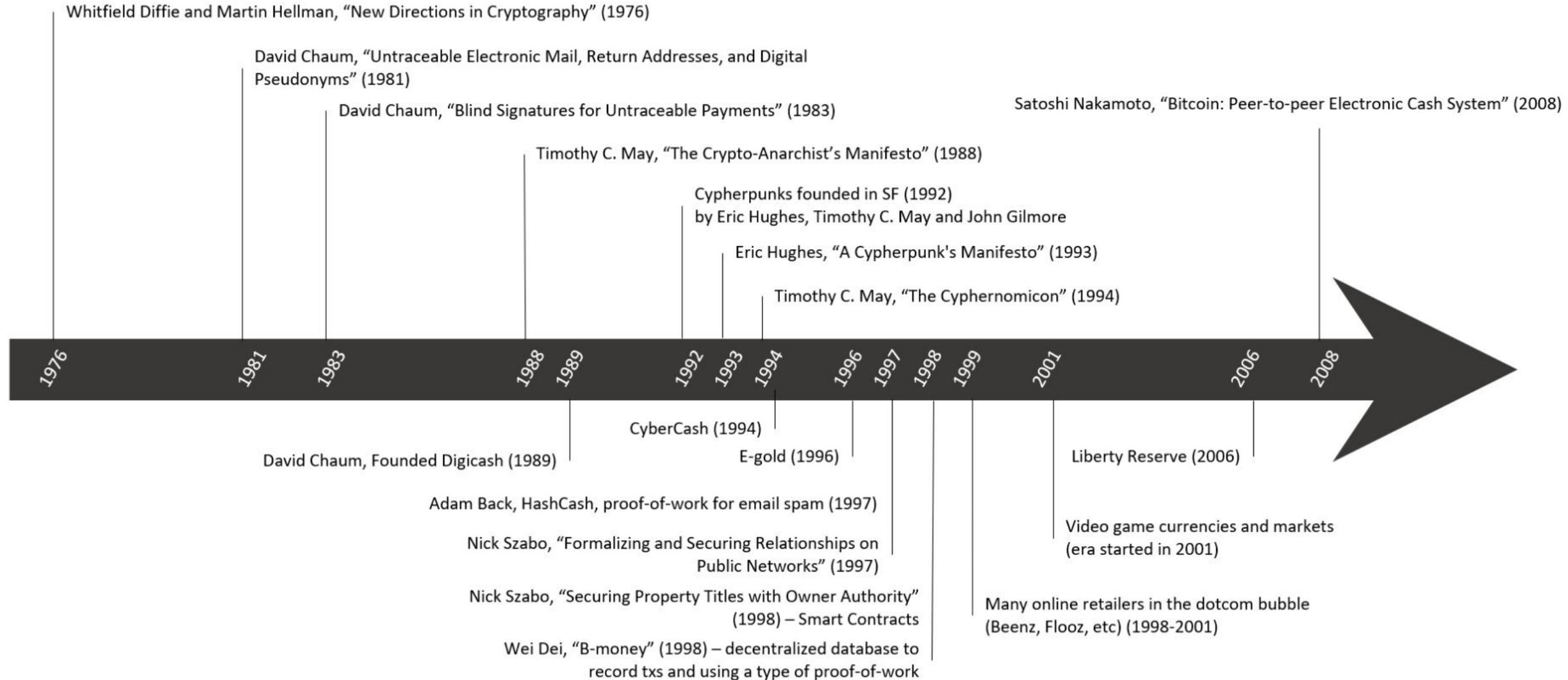
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- 1 **Introduction**
 - 2 **Transactions**
 - 3 **Mining**
 - 4 **Wallet**
 - 5 **Lightning Network**

1

INTRODUCTION

“Bitcoin is the culmination of 30 years of attempts at building digital money for the internet.”

Bitcoin Prehistory Timeline



FEATURES

- A blockchain serves as the authoritative, trusted, open, public, global ledger
- Permissionless
 - Anyone can transact freely
 - Anyone can contribute to the protocol development (open source)
- Censorship-resistant
- Trustless
 - No third-party
 - An alternative to the global banking cartel
 - But securing digital assets is not trivial

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- **Decentralized network of independent nodes**
 - Nodes following the same set of rules (consensus rules)
 - Validating each blocks and transactions
 - Assembling their own copy of the blockchain
- **Apocalypse-resistant**
 - We can send bitcoins via satellite, mesh network, radio waves (Ham, JS8Call)
- **Deflationary system**
 - Programmatically fixed coin issuance (inflation rate)
 - Block mining reward halves every 210,000 blocks
 - Limited money supply to 21 milions coins

PROTOCOL & IMPLEMENTATIONS

- BIPs are a set of specifications that affects Bitcoin in general, not a specific implementation
- But ultimately, the reference client is the specification
 - The Bitcoin protocol is specified by the behavior of the reference client
 - Consensus is determined by the software that the majority of the network runs
 - Consensus is not determined by a natural language specification
- Implementations
 - Bitcoin Core / Reference client / Satoshi client (C++)
 - Btcd (Go)
 - BitcoinJ (Java)
 - Bcoin (Javascript)
 - Parity-bitcoin (Rust)
 - ...



1
A sends a transaction to B



2

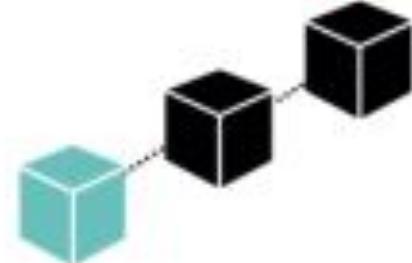
Several transactions are gathered together in a block



3

The block is validated by every full nodes in the network

4



The block is timestamped and added to the public chain of blocks

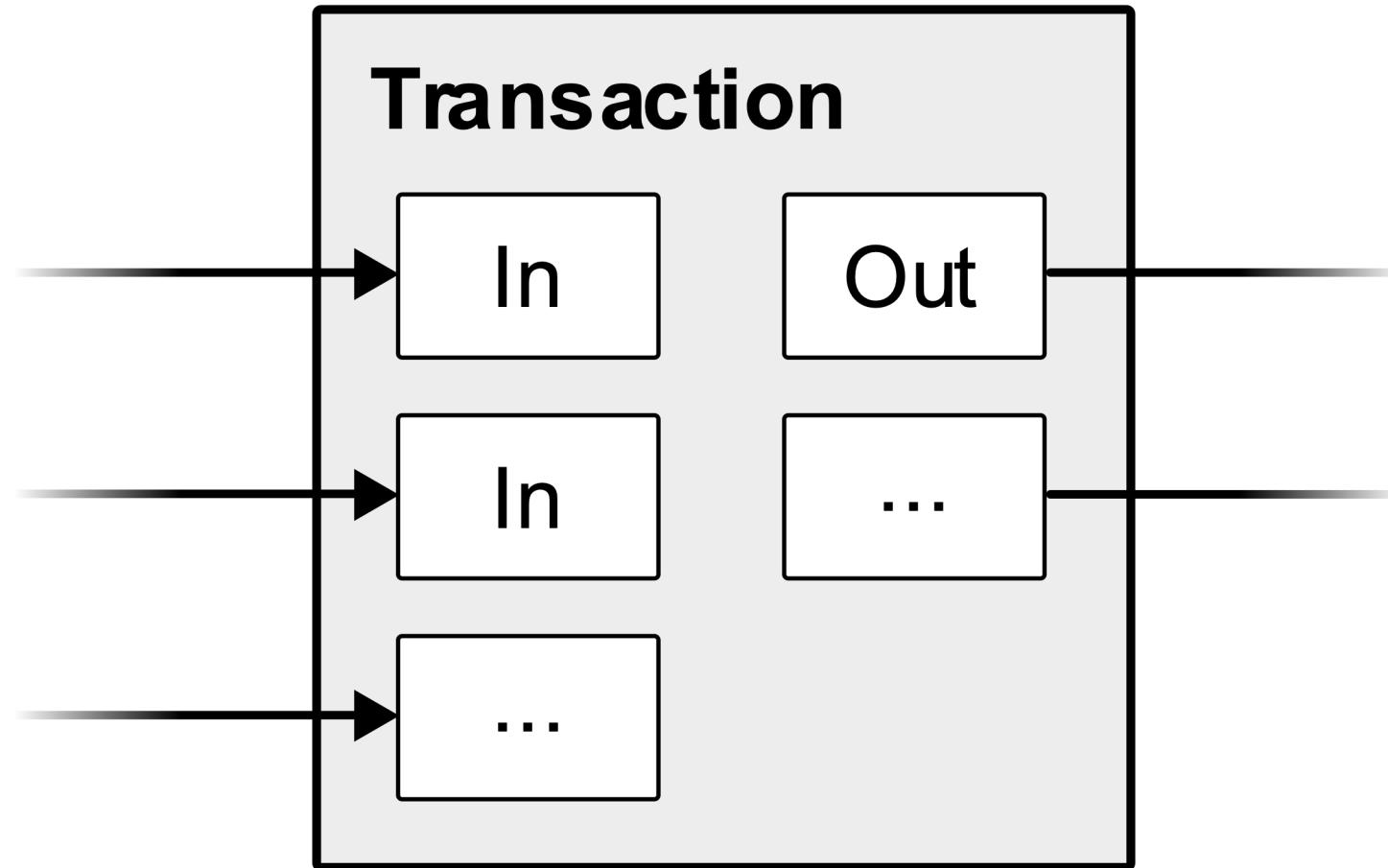
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B receives the transaction

2

TRANSACTIONS



SMART CONTRACTS

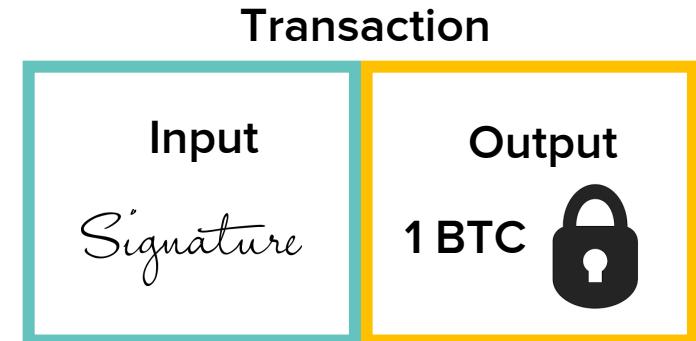
- Unlocking script in Input / Locking script in previous Output
- Several standard smart contracts, defining the output type
 - Legacy
 - Pay To Public Key (P2PK)
 - Pay To Public Key Hash (P2PKH)
 - Pay To Script Hash (P2SH)
 - Nested Segwit
 - P2SH-P2WPKH
 - P2SH-P2WSH
 - Native Segwit
 - Pay To Witness Public Key Hash (P2WPKH)
 - Pay To Witness Script Hash (P2WSH)
 - Data anchoring (null_data, OP_RETURN)
- The smart contract type defines the execution flow, using template code

SPENDING CONDITIONS

- One signature
- Multiple signatures
 - A group of signers
 - A wallet company counter-signs a user tx
- Hashlock
- Timelock
- A mix of all that

- **MiniScript**
 - A new language to describes spending policies
 - Tree-like structure
 - Easy to construct
 - Easy to analyse

```
// push value
OP_0 = 0x00,
OP_FALSE = OP_0,
OP_PUSHDATA1 = 0x4c,
OP_PUSHDATA2 = 0x4d,
OP_PUSHDATA4 = 0x4e,
OP_1NEGATE = 0x4f,
OP_RESERVED = 0x50,
OP_1 = 0x51,
OP_TRUE=OP_1,
OP_2 = 0x52,
OP_3 = 0x53,
OP_4 = 0x54,
OP_5 = 0x55,
OP_6 = 0x56,
OP_7 = 0x57,
OP_8 = 0x58,
OP_9 = 0x59,
OP_10 = 0x5a,
OP_11 = 0x5b,
OP_12 = 0x5c,
OP_13 = 0x5d,
OP_14 = 0x5e,
OP_15 = 0x5f,
OP_16 = 0x60,
// control
OP_NOP = 0x61,
OP_VER = 0x62,
OP_IF = 0x63,
OP_NOTIF = 0x64,
OP_VERIF = 0x65,
OP_VERNOTIF = 0x66,
OP_ELSE = 0x67,
OP_ENDIF = 0x68,
OP_VERIFY = 0x69,
OP_RETURN = 0x6a,
// stack ops
OP_TOALTSTACK = 0x6b,
OP_FROMALTSTACK = 0x6c,
OP_2DROP = 0x6d,
OP_2DUP = 0x6e,
OP_3DUP = 0x6f,
OP_2OVER = 0x70,
OP_2ROT = 0x71,
OP_2SWAP = 0x72,
OP_IFDUP = 0x73,
OP_DEPTH = 0x74,
OP_DROP = 0x75,
OP_DUP = 0x76,
OP_NIP = 0x77,
OP_OVER = 0x78,
OP_PICK = 0x79,
OP_ROLL = 0x7a,
OP_ROT = 0x7b,
OP_SWAP = 0x7c,
OP_TUCK = 0x7d,
// splice ops
OP_CAT = 0x7e,
OP_SUBSTR = 0x7f,
OP_LEFT = 0x80,
OP_RIGHT = 0x81,
OP_SIZE = 0x82,
// bit logic
OP_INVERT = 0x83,
OP_AND = 0x84,
OP_OR = 0x85,
OP_XOR = 0x86,
OP_EQUAL = 0x87,
OP_EQUALVERIFY = 0x88,
OP_RESERVED1 = 0x89,
OP_RESERVED2 = 0x8a,
// numeric
OP_1ADD = 0x8b,
OP_1SUB = 0x8c,
OP_2MUL = 0x8d,
OP_2DIV = 0x8e,
OP_NEGATE = 0x8f,
OP_ABS = 0x90,
OP_NOT = 0x91,
OP_0NOTEQUAL = 0x92,
OP_ADD = 0x93,
OP_SUB = 0x94,
OP_MUL = 0x95,
OP_DIV = 0x96,
OP_MOD = 0x97,
OP_LSHIFT = 0x98,
OP_RSHIFT = 0x99,
OP_BOOLAND = 0x9a,
OP_BOOLOR = 0x9b,
OP_NUMEQUAL = 0x9c,
OP_NUMEQUALVERIFY = 0x9d,
OP_NUMNOTEQUAL = 0x9e,
OP_LESSTHAN = 0x9f,
OP_GREATERTHAN = 0xa0,
OP_LESSTHANOREQUAL = 0xa1,
OP_GREATERTHANOREQUAL = 0xa2,
OP_MIN = 0xa3,
OP_MAX = 0xa4,
OP_WITHIN = 0xa5,
// crypto
OP_RIPEMD160 = 0xa6,
OP_SHA1 = 0xa7,
OP_SHA256 = 0xa8,
OP_HASH160 = 0xa9,
OP_HASH256 = 0xaa,
OP_CODESEPARATOR = 0xab,
OP_CHECKSIG = 0xac,
OP_CHECKSIGVERIFY = 0xad,
OP_CHECKMULTISIG = 0xae,
OP_CHECKMULTISIGVERIFY = 0xaf,
// expansion
OP_NOP1 = 0xb0,
OP_CHECKLOCKTIMEVERIFY = 0xb1,
OP_NOP2 = OP_CHECKLOCKTIMEVERIFY,
OP_CHECKSEQUENCEVERIFY = 0xb2,
OP_NOP3 = OP_CHECKSEQUENCEVERIFY,
OP_NOP4 = 0xb3,
OP_NOP5 = 0xb4,
OP_NOP6 = 0xb5,
OP_NOP7 = 0xb6,
OP_NOP8 = 0xb7,
OP_NOP9 = 0xb8,
OP_NOP10 = 0xb9,
OP_INVALIDOPCODE = 0xff,
```



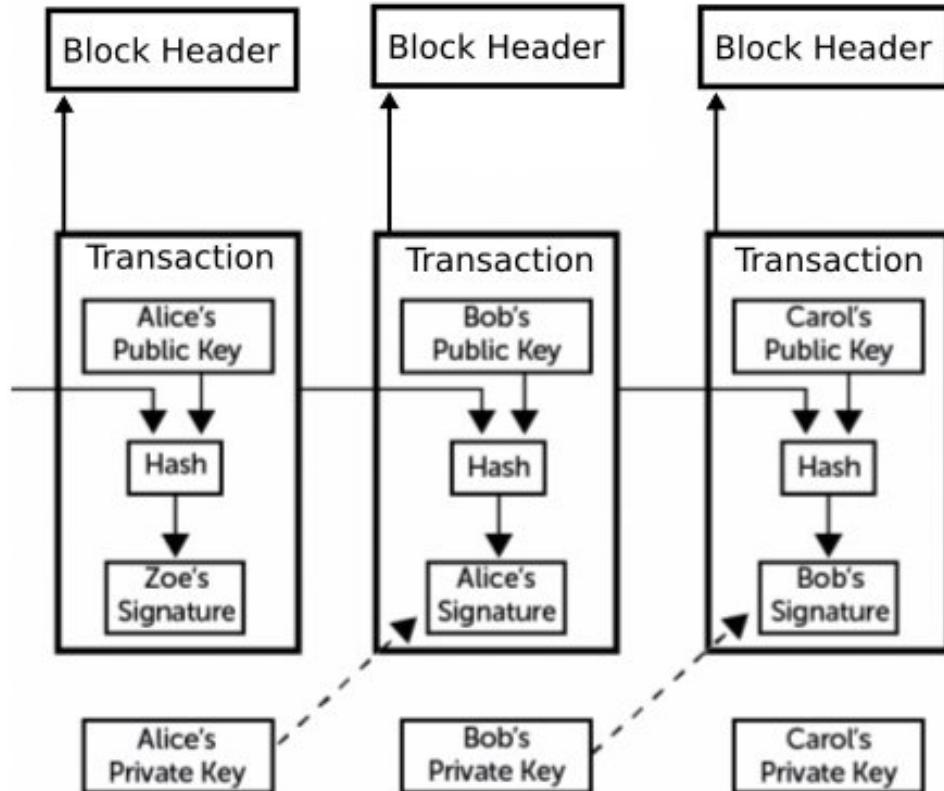
SCHNORR-BASED CONTRACTS

- Plan to transition from ECDSA to Schnorr
- Schnorr cryptography allows more mathematical tricks
 - We can add and subtract signatures, public keys, etc.
- Scriptless scripts
 - A way to do alchemy with signatures
 - Smart contracts executed off-chain, only by the parties involved
 - A valid transaction has a signature that proves correct contract execution
 - Atomic coinswap, etc.
- Discreet log contracts
 - A way to do alchemy with public keys
 - An oracle determines division of funds
- Taproot

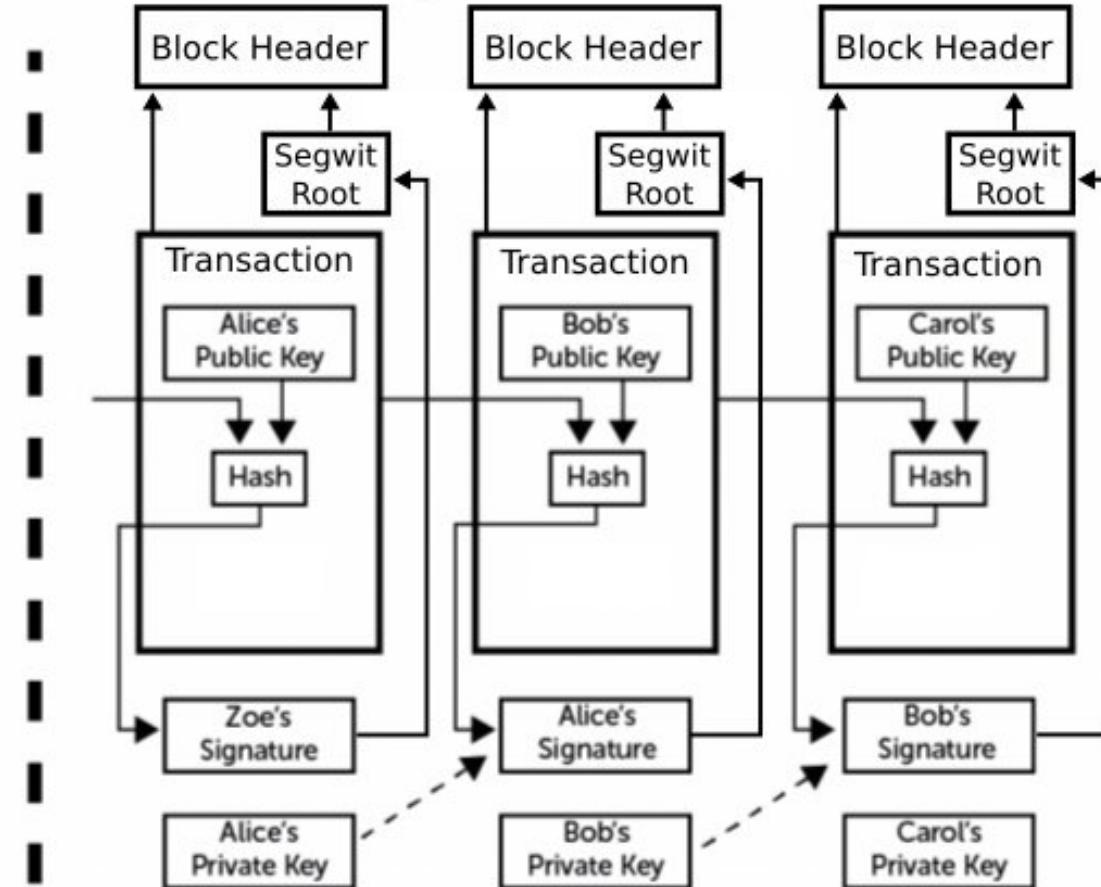
SEGREGATED WITNESS

- New transaction format, activated on August 2017
- Fix the transaction ID malleability problem
 - Malleable witness data (input script) segregated outside the transaction
 - Which allows the Lightning Network
- Bypass block size limit (1MB)
 - Witness data are discounted (1/4 of its real size)
 - Average block size is 1.3MB in Feb 2019
- More efficient signature verification algorithm
- Introduces script versioning

Non-segwit blocks



Segwit blocks



3

MINING

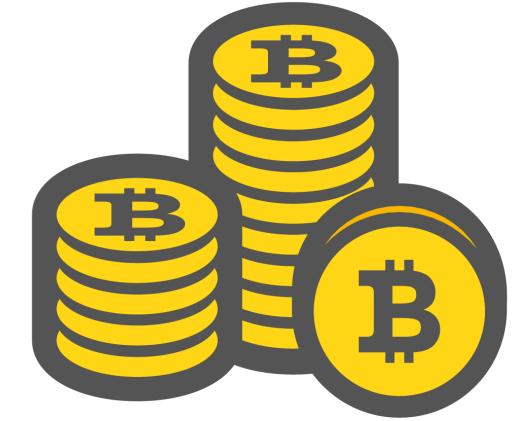
Mining plays 3 major roles in maintaining the Bitcoin network



Securing the blockchain



Confirming Transactions



Issuing New coins

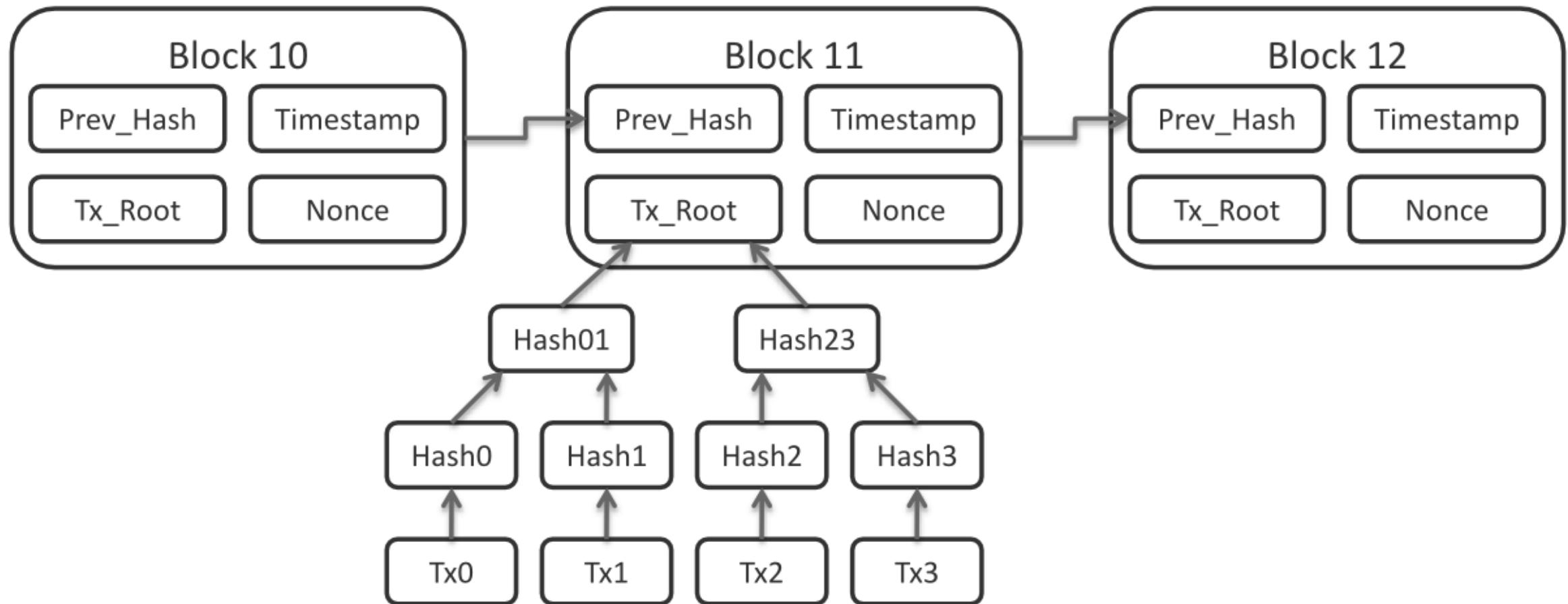


And the people who employ their computing resources to this process are called miners

BLOCKS



The first transaction of each block pays the miner who mined the block (coinbase transaction)





Transaction 86

Memory Pool

- Transaction #34
- Transaction #a542
- Transaction #1f56
- Transaction #38b4
- Transaction #855c
- ...



Candidate Block

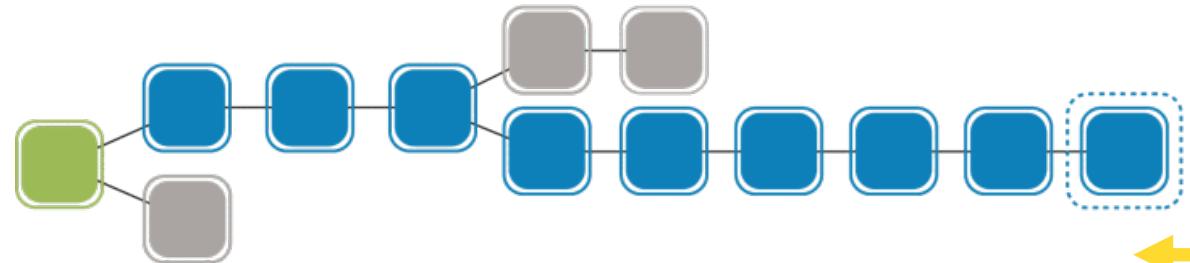
Block Header

- Block hash (PoW)
- Previous block hash
- Timestamp
- Difficulty
- Nonce (1++)
- Transaction Merkle root



Transaction list

- Coinbase transaction
- Transaction #34
- Transaction #a542
- Transaction #1f56
- Transaction #38b4
- Transaction #855c
- ...



If block is valid
and block hash < difficulty target
then block is accepted by the other nodes
and added to their blockchain

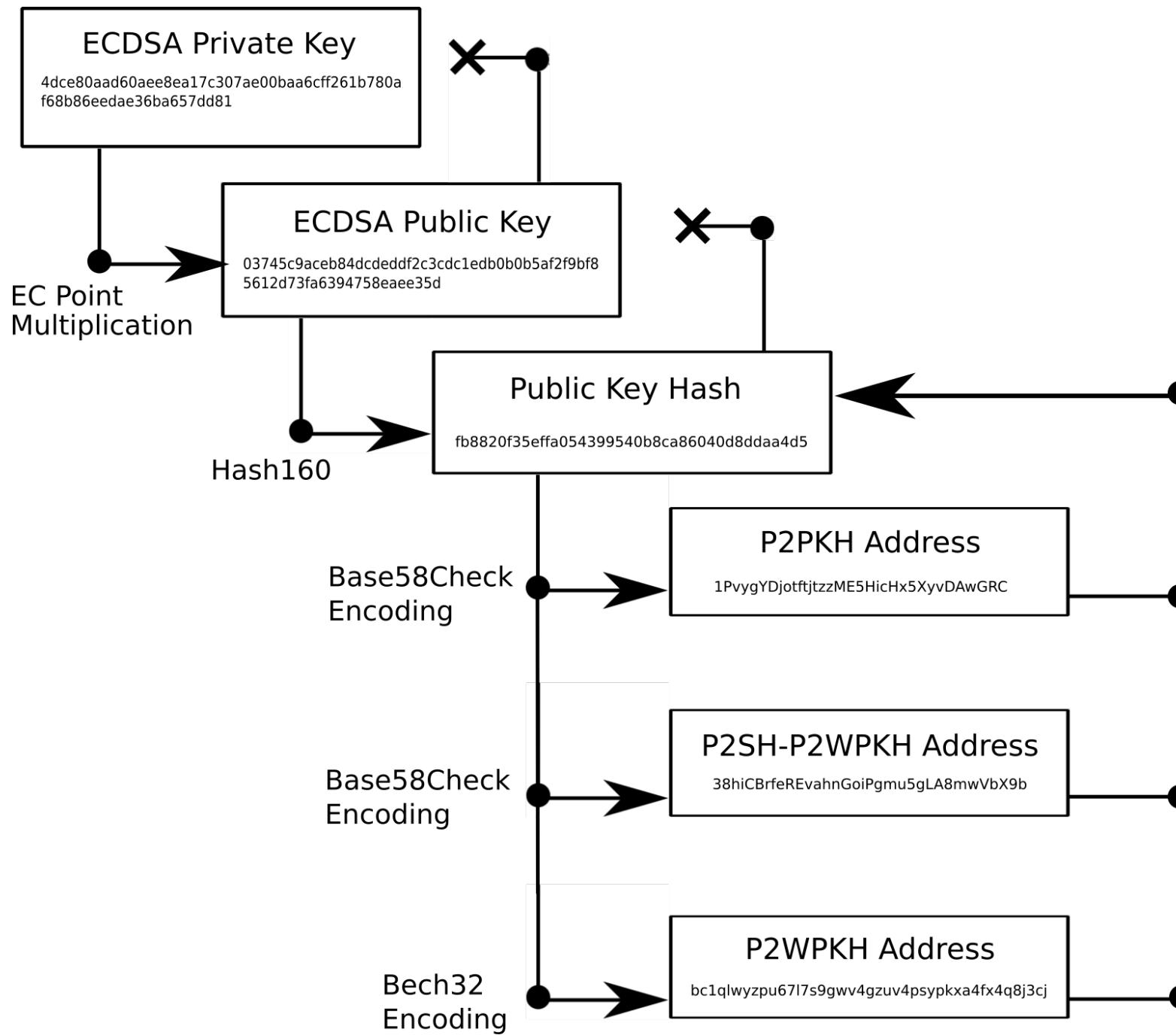
Difficulty adjusts every
2016 blocks

- Use the Proof of Work consensus algorithm
 - Security based on laws of thermodynamics
 - Around 45 EH/s in March 2019 (exa = 10^{18})
 - Enables network-wide consensus without central authority
- Relentless race to the lowest electricity costs
- Mainly powered on renewable energy
 - CoinShares studies
 - More than 75% of Bitcoin's energy usage is estimated to come from renewable resources
 - Nearly half of all mining is done in a part of China where power is almost exclusively hydroelectric
 - Can positively contribute to the development and scaling of renewable energy projects



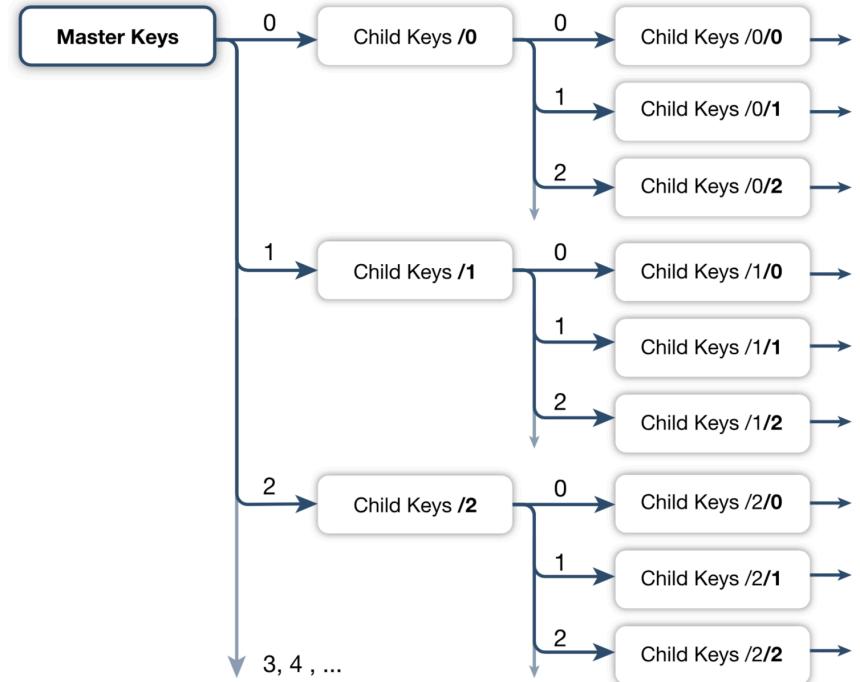
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WALLET



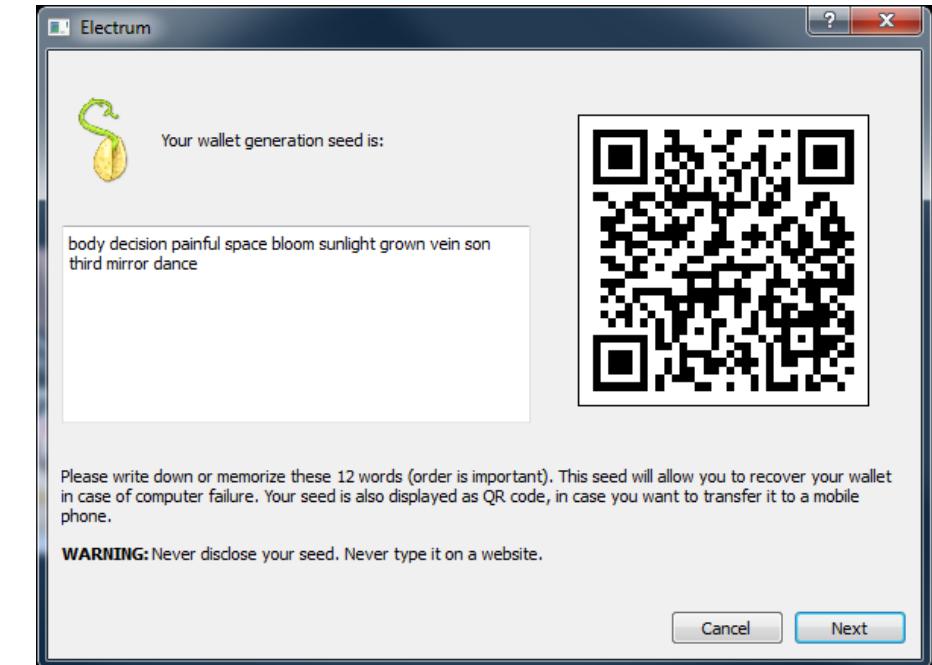
HD WALLET

- Deterministically derive an indefinite number of addresses from a single secret
- Fresh addresses to improved privacy
- Can be reconstructed from master keys and mnemonic code
- Allows multiple accounts and multiple currencies



MNEMONIC CODE

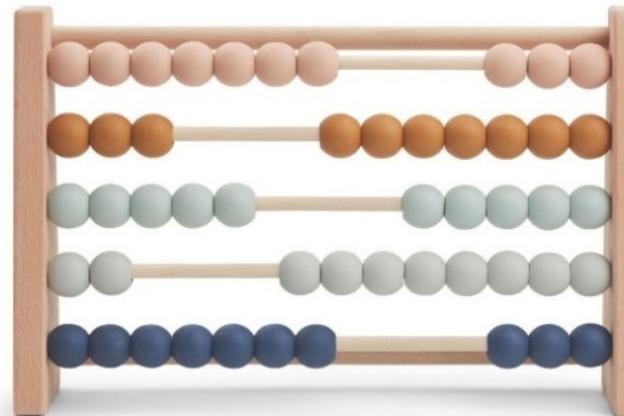
- Wallet backup, usually 12 or 24 english words
- HD Tree derived from the mnemonic
- Mnemonic standard (BIP39) allows to add an additional passphrase
- No need to backup multiple times
- Bitcoin Core doesn't support mnemonic code
 - wallet.dat file to backup



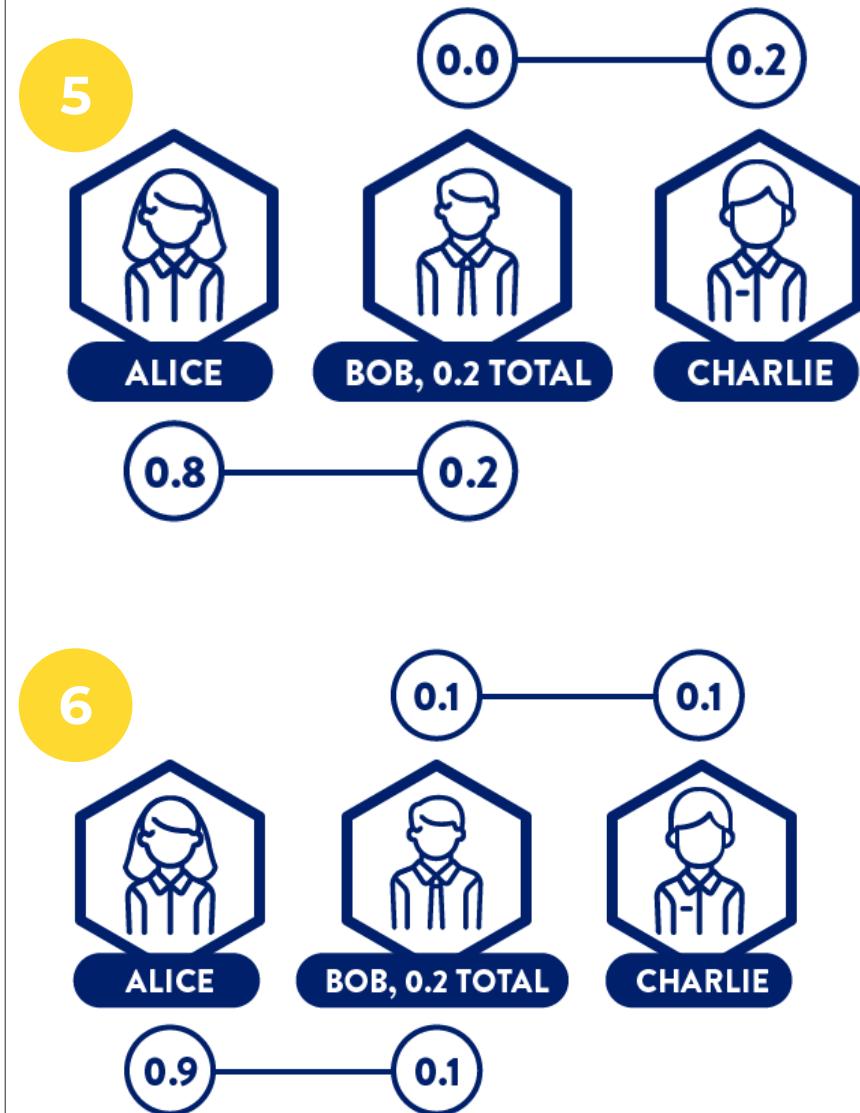
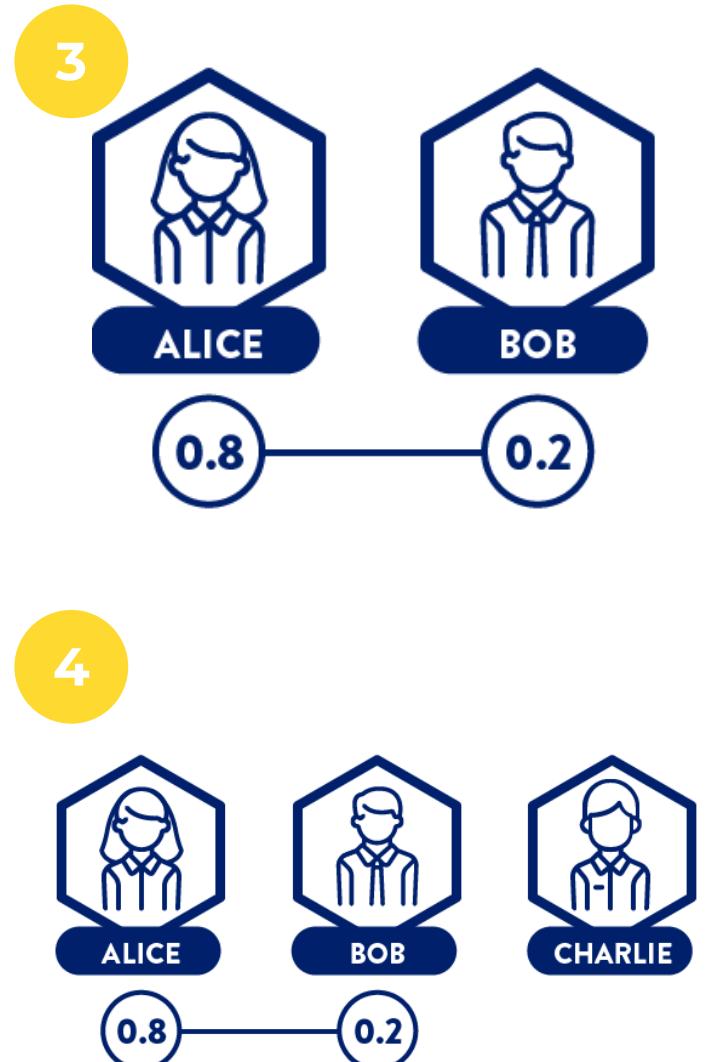
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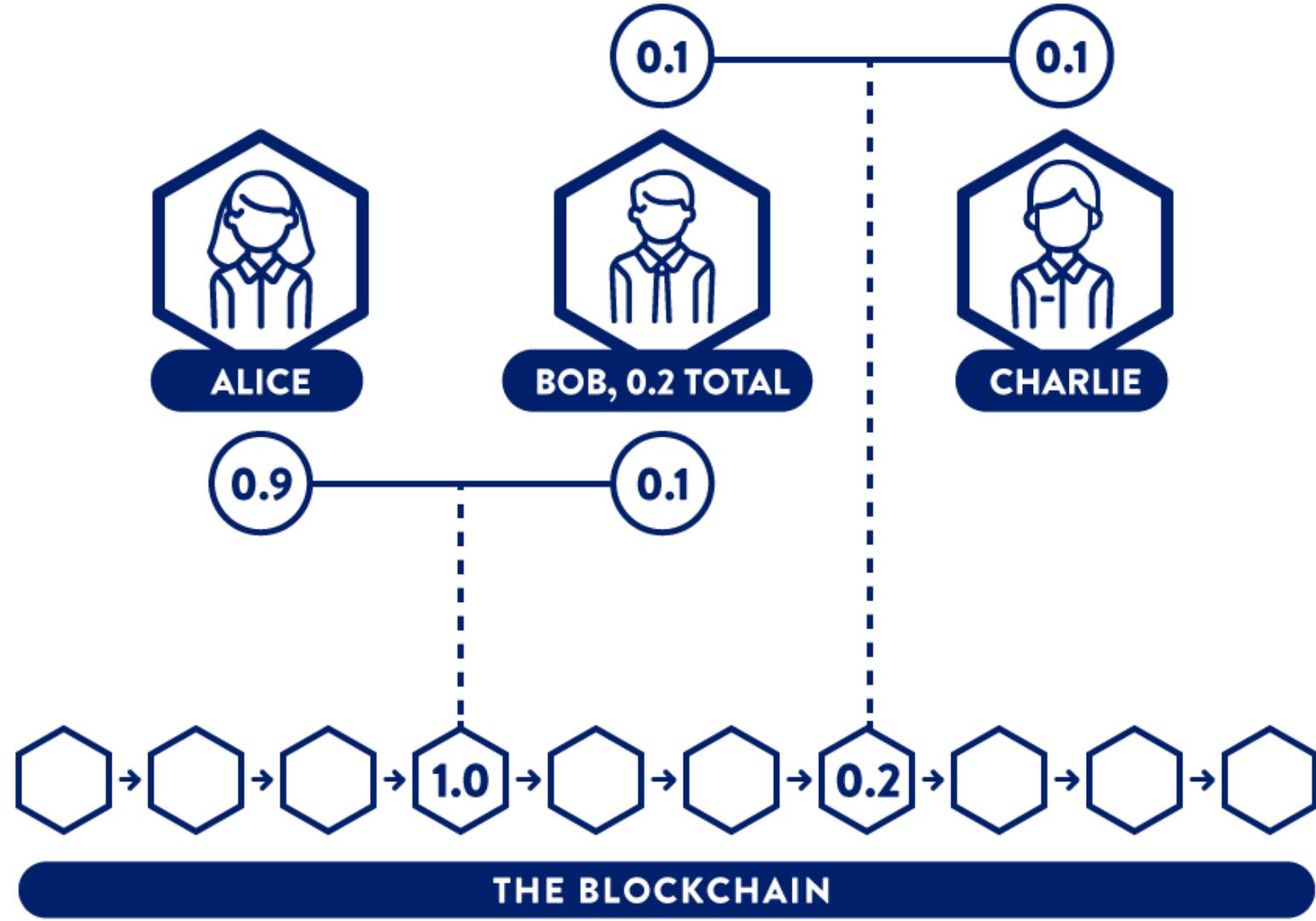
LIGHTNING NETWORK

- Off-chain transaction => near-instant payments
- Money flows through a payment channel



- LN is a network of payment channels
- Built on top of the Bitcoin network
- Leverage a type of P2SH smart-contracts (HTLCs)





CONCLUSION

- Electronic cash system, programmable money
- 100% uptime since 10 years
- Improving quickly everyday
- Amazing open-source project
- Full of brilliant people